In the Supreme Court of the United States

OCTOBER TERM, 1950.

No. 352.

THE TIMKEN ROLLER BEARING COMPANY,
Appellant,

v.

THE UNITED STATES OF AMERICA,
Appellee.

APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE NORTHERN DISTRICT OF OHIO, EASTERN DIVISION.

BRIEF FOR THE APPELLANT, THE TIMKEN ROLLER BEARING COMPANY.

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THE GATES LEGAL PUBLISHING CO., CLEVELAND, OHIO—MAIN 1-8647

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Appeal From the District Court of the United States For the Northern District of Ohio, Eastern Division.

BRIEF FOR THE APPELLANT, THE TIMKEN ROLLER BEARING COMPANY.

This is an appeal from a judgment of the district court against The Timken Roller Bearing Company, defendant in that court, appellant in this Court, in a civil action for an alleged violation of Sections 1 and 3 of the Sherman Act, granting equitable relief to the United States of America, plaintiff in that court and appellee herein.

OPINION BELOW.

The opinion of the district court (R. 958) is reported in *United States v. The Timken Roller Bearing Company,* 83 Fed. Supp. 284 (D.C. N.D. Ohio, 1948).

JURISDICTION.

The judgment of the district court herein was entered on February 15, 1950 (R. 1172). Motions by the appellant for a new trial, and to amend, and to make new, and additional, findings of fact and conclusions of law were filed on

February 24, 1950 (R. 1181), and overruled on June 14, 1950 (R. 1252). A petition for appeal was allowed on July 28, 1950 (R. 1253-1255). The jurisdiction of this Court is conferred by Section 2 of the Act of February 11, 1903, as amended (32 Stat. 823; 36 Stat. 1167; 58 Stat. 272; 62 Stat. 989; 15 U. S. C. § 29; 49 U. S. C. § 45). Probable jurisdiction of the case was noted by this Court on November 6, 1950 (R. 1327).

QUESTIONS PRESENTED.

The appellant, The Timken Roller Bearing Company (hereinafter called American Timken), in 1927 acquired jointly with Michael B. U. Dewar, an English businessman, all of the stock of British Timken, Ltd. (hereinafter called British Timken), an English corporation, and now owns 30.26% of its ordinary shares of stock. Since Dewar's death on December 21, 1950, American Timken has taken steps to exercise an option to acquire his 23.74% thereof. American Timken and Dewar also jointly caused Societe Anonyme Francaise Timken (hereinafter called French Timken), a French corporation, to be organized in 1928, and since then American Timken has owned, and now owns, 50% of its stock, and has acted to exercise its option, which accrued at Dewar's death, to acquire more stock giving it voting control, and it expects to purchase the balance of the stock from Dewar's holding company pursuant to an agreement giving it the first refusal thereof.[1] The district court found

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[1] These facts are stated in substance in support of a motion in the district court, a copy of which is attached to a motion for postponement of oral argument filed in this Court which was denied in March, 1951.

In the district court this case was tried, considered and decided upon the basis that Dewar was alive. His death has had two principal effects in that, first, it terminated the joint adventure between him and American Timken hereinafter referred to, and also made operative the options on his British and French Timken stock. Be-

(Continued on following page)

that business agreements and other arrangements between the three companies, which have been engaged principally in the manufacture and sale of tapered roller bearings invented and patented by the founders of American Timken, constituted an illegal combination in restraint of trade, contrary to Sections 1 and 3 of the Sherman Act. The questions presented are:

1. Whether the restraints of trade, if any, resulting from the business agreements, contracts and understandings between American Timken and British Timken and French Timken have been at all times, and are, reasonably and lawfully ancillary to the creation and maintenance of a lawful joint adventure and enterprise by American Timken and Dewar through their joint acquisition and control of

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(*Continued from preceding page*)

cause of these changes in the factual and legal situation after perfection of the appeal to this Court, American Timken, having determined that it was the proper course of procedure under the authorities, of which *Roemer v. Simon*, 91 U. S. 149, is the leading case, moved the district court that it request leave of this Court to take additional evidence due to the changed circumstances and to reconsider its judgment herein in the light thereof. At the same time, feeling free so to do under the broad provisions of the district court's order staying execution of its final judgment (R. 1255), it has taken steps to exercise the options, advising the district court of its intention so to do in the motion filed therein.

The motion in the district court was filed January 24, 1951, and was heard and submitted on February 14, 1951. The court advised counsel, in substance, that due to pressure of other business the motion could not be considered for at least thirty days, being advised by counsel that, in all probability, this appeal would be set for hearing in this Court in the month of April, 1951. In this situation American Timken filed its motion in this Court seeking postponement of the oral argument until the October Term, 1951, in order to enable the district court to decide the motion before it. The district court has just overruled this motion, on April 10, 1951.

American Timken has taken this action in both courts on the theory that this appeal should not be considered and decided upon the basis that Dewar is still alive when he is, in fact, dead, and believing that the motion which it filed in the district court was the only proper and authorized method to get before it and this Court new facts, due to the changed circumstances, so that this case may be considered and decided in the light thereof.

British Timken and German Timken (now defunct), and joint organization and control of French Timken, to develop foreign trade and good will of American Timken in anti-friction bearings under a license of the trademark "Timken."

2. Whether such restraints of trade, if any, have been at all times, and are, reasonably and lawfully ancillary to the licensing of the trademark "Timken" by American Timken to British Timken and French Timken, including the supplying of exclusive information by American Timken to them as to the production of anti-friction bearings in connection with such trademark licenses.

3. Whether the purported findings of fact upon which the district court based its final judgment are clearly erroneous.

4. Whether the district court erred in not making, as requested by American Timken, proper findings of underlying ultimate and subsidiary facts on all issues in the case, separately found, and conclusions of law separately stated, as required by Rule 52 of the Federal Rules of Civil Procedure (because the findings of fact and conclusions of law did not sufficiently appear in the memorandum filed by the court); in adopting, upon the motion of the appellee, the court's memorandum opinion as its findings of fact and conclusions of law; and in overruling American Timken's motion after judgment that the court adopt, in lieu of such purported findings and conclusions the proposed findings and conclusions submitted by it with its motion.

5. Whether the final judgment of the district court is erroneous, beyond its jurisdiction, exceeds the permissible limits of the discretion conferred upon it, deprives American Timken of its property without just compensation and without due process of law, contrary to the Fifth Amendment to the Constitution of the United States, and should be reversed, in that:

(a) It enjoins American Timken in perpetuity from granting to, or receiving from, British Timken and French Timken exclusively "in such a way as to deny any third person access thereto" know-how, machinery, materials and patents, even though it was not alleged in the amended complaint that these constituted any part of the means adopted by American Timken and its alleged co-conspirators to carry on the alleged conspiracy, and in this respect deprives it of its property without due process of law, contrary to the Fifth Amendment;

(b) It enjoins American Timken in perpetuity from entering into any agreement with British Timken or French Timken, or any subsidiary, successor, assign, sales agent, representative or distributor thereof, to fix resale prices of anti-friction bearings produced by American Timken, thus depriving it of its rights under the Miller-Tydings Act (50 Stat. 693, 15 U. S. C. § 1);

(c) It enjoins American Timken in perpetuity from refusing to sell anti-friction bearings to any person at prices and on terms corresponding with those regularly offered to purchasers of the same classification for resale in American Timken's territory, and from failing to provide services or assistance relating to the disposition or use thereof comparable to that made available to distributors or users of bearings in American Timken's territory, where the reason for such refusal is that the bearings are for resale, or other distribution, in the territory of British Timken or French Timken, or in some country in other than American Timken's territory, as defined in the final judgment, thus exceeding the court's jurisdiction to prevent and restrain violations of the Sherman Act under Section 4 thereof, and depriving American Timken of its property without just compensation and without due process of law, contrary to the Fifth Amendment of the Constitution of the United States;

(d) It enjoins American Timken from entering into any agreement with British Timken or French Timken for the transfer of any right or immunity under any trademark or name relating to the production of anti-friction bearings upon the condition that either of them shall allocate or divide territories for the production or sale of anti-friction bearings, exclude any producer or distributor from any market for anti-friction bearings, or receive, grant, or exchange know-how or materials or machinery used in the production of anti-friction bearings in such a way as to deny any third person access thereto, thus depriving American Timken of its lawful right to license the trademark "Timken," or any other trademark, in various respects;

(e) It requires American Timken to divest itself of all its stockholdings and financial interest, either direct or indirect, in British Timken and French Timken, when the uncontroverted evidence in the record discloses, and the district court found, that such stockholdings and interest were not acquired in connection with the alleged conduct of the alleged conspiracy and the stock had not been used to control British Timken and French Timken in the carrying out thereof, the only basis upon which the appellee urged such divestiture being that the ownership of such investments by American Timken would constitute an inducement and incentive not to compete with British Timken and French Timken, and the uncontroverted evidence in the record discloses that such divestiture would constitute a hardship to, and punishment of, American Timken.

STATUTES INVOLVED.

The Act of July 2, 1890, 26 Stat. 209, known as the Sherman Act, as amended (15 U. S. C. §§ 1, 3 and 4), provides in part as follows:

"SEC. 1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal: * * * Every person who shall make any contract or engage in any combination or conspiracy declared * * * to be illegal shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding $5,000, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court."

"SEC. 3. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce in any Territory of the United States or of the District of Columbia, or in restraint of trade or commerce between any such Territory and another, or between any such Territory or Territories and any State or States or the District of Columbia, or with foreign nations, or between the District of Columbia and any State or States or foreign nations, is declared illegal. Every person who shall make any such contract or engage in any such combination or conspiracy, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding $5,000, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court."

"SEC. 4. The several district courts of the United States are invested with jurisdiction to prevent and restrain violations of this act; and it shall be the duty of the several district attorneys for the United States, in their respective districts, under the direction of the Attorney General, to institute proceedings in equity to prevent and restrain such violations. * * *"

STATEMENT.

The appellee, on July 31, 1946, brought this suit under Section 4 of the Sherman Act against American Timken alone to prevent and restrain an alleged combination in unreasonable restraint of trade between American Timken and British Timken and French Timken, in violation of Sections 1 and 3 of the Sherman Act (R. 1).

The amended complaint (R. 13-25) alleges that, beginning in 1928 and continuously thereafter the three Timken companies have conspired and combined in restraint of interstate and foreign commerce of the United States by entering into contracts, agreements and understandings, and continuously planning and acting together, to eliminate competition between themselves and with others in the manufacture and sale of anti-friction bearings in all markets of the world. The alleged means have consisted of allocating to each company an exclusive territory into which the other companies shall not sell nor ship anti-friction bearings except in completed articles of manufacture and for replacement of bearings therein; fixing and agreeing upon prices of replacement bearings shipped into each other's territory, and upon prices of bearings sold and shipped to Russia; allocating the use of the trademark "Timken" to each of the companies in its territory, and requiring that British Timken and French Timken use that trademark exclusively and surrender it to American Timken upon termination of such contracts, agreements and understandings; entering into agreements with other manufacturers in certain territories regulating and allocating the sale of bearings; and furnishing aid to each other in restricting and eliminating in their respective territories competition from others.

The amended complaint further alleges that the combination has resulted in "unreasonable" restraint of imports into, and exports from, the United States and that, although the apparent shortage of anti-friction bearings has created large potential export markets for those of Ameri-

can manufacture and American Timken has expanded its productive facilities during World War II, nevertheless, the continuation of the combination will prevent it from seeking and acquiring many foreign markets and will thus reduce its production of bearings and employment of labor (R. 22, 23).

The appellee prays an injunction against the combination, cancellation of certain business agreements between the three companies, that American Timken be enjoined from transferring the trademark "Timken" to the other companies in such a way as to exclude it from using the trademark throughout the world, and that it be required to divest itself of its stock holdings and financial interests in British Timken and French Timken (R. 23, 24).

The evidence introduced at the trial on the part of the appellee consisted of approximately 191 exhibits, the oral testimony of one witness, the vice president in charge of sales of American Timken, and portions of depositions taken by American Timken, while the evidence of American Timken consisted of 249 exhibits, the oral testimony of several officials and employees of American Timken and certain other witnesses, and portions of such depositions.

Following the trial and the submission of briefs, the district court filed a memorandum on March 3, 1949, holding that American Timken had engaged in a combination in restraint of foreign commerce (R. 958).

Thereafter, acting purportedly pursuant to Rule 4B of the district court, which requires the prevailing party to prepare a draft of findings of fact and conclusions of law, the appellee submitted a proposed journal entry adopting the district court's memorandum as its findings and conclusions. American Timken filed a motion that the district court reject and disregard this document and require the appellee to submit a draft of findings and conclusions as required by Federal Rule of Civil Procedure 52(a) on the ground that the court's memorandum did not contain findings and conclusions as contemplated by the Federal Rules

of Civil Procedure and the decisions of this Court (R. 1018). The district court overruled the motion (R. 1021), and entered an order adopting its memorandum as its findings and conclusions (R. 1020).

The district court's purported findings of fact and conclusions of law are intermingled in 211 numbered paragraphs (R. 958). Error has been assigned to what appear to be each of the court's ultimate findings and to others which are clearly erroneous (R. 1256, 1269-1288).

The district court's memorandum clearly shows that it proceeded throughout, in its consideration of this case, upon the assumption that American Timken, British Timken and French Timken were not only separate and distinct corporate entities, but also independent operating units and factors, and potential or actual competitors, in a mythical tapered roller bearing industry.[2] Proceeding upon this fundamentally mistaken theory, the court held that the various cooperative activities in which they had engaged constituted a combination in restraint of trade. The court disregarded uncontroverted evidence introduced by American Timken which disclosed that British Timken had been acquired and French Timken organized as integral parts of a joint enterprise between American Timken and Dewar to promote the manufacture and sale in foreign countries of tapered roller bearings manufactured according to the methods developed by American Timken under license of the trademark "Timken." This evidence disclosed that the agreements and arrangements between American Timken and Dewar involved complicated contractual arrangements for control of these companies and the conduct of their business startlingly similar to those involved in *United States v. Scophony Corporation*, 333 U. S. 795, characterized by this

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[2] There was no hint nor suggestion in the amended complaint of the existence of such an industry. Except in the opening paragraph where American Timken is described as a manufacturer of tapered roller bearings every reference therein is to the anti-friction bearing industry.

Court as creating "*what practically, if not also technically, was a joint adventure*[3] * * *."

Thus, the significance of many of the purported findings of fact can be determined only if viewed in relation to other undisputed facts which they ignore or fail properly to evaluate.

American Timken, after the entry of final judgment, filed a motion asking the court (R. 1181) to amend it and to make new, and additional, findings of fact and conclusions of law by adopting those submitted by it with the motion as Exhibit A thereto (R. 1190-1250), which included the facts largely ignored by the district court. This was overruled (R. 1252).

On August 1, 1949, the appellee, pursuant to Rule 4A of the district court, filed a proposed final judgment (R. 1022), and American Timken filed objections thereto (R. 1035-1082), and submitted its draft of judgment which it proposed as a substitute for the draft submitted by appellee. After a further hearing (R. 1082-1169) at which evidence was taken as to the form of the decree, the district court on February 15, 1950 (R. 1172) entered its final judgment in which it incorporated to a large extent several of the drastic and involved provisions contained in the appellee's proposed draft. The unconstitutional aspects of these provisions were called to the district court's attention in American Timken's objections to the appellee's draft and are discussed hereinafter under Section V hereof.

Subsequent to the filing of the appeal, and after probable jurisdiction had been noted by this Court, Dewar died, on December 21, 1950, and the joint enterprise between him and American Timken came to an end, giving rise to new questions which will be discussed hereinafter. However, the facts relied upon by American Timken with respect to the joint enterprise are still of vital importance in determining whether or not the conduct of American Timken and

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[3] Italics throughout are ours unless otherwise indicated.

British Timken and French Timken was legal at the time the district court considered the case and entered final judgment therein, and whether the remaining contractual rights, consisting of the business agreements between the three companies and those between American Timken and Dewar, were legal at the time they were entered into, thus preventing their being stricken down even after Dewar's death.

THE TIMKEN COMPANIES AND THEIR POSITION IN THE INDUSTRY IN WHICH THEY COMPETE.

Although it is not charged that American Timken has attempted to *monopolize*, or has combined with British Timken and French Timken in an attempt to monopolize, the industry in which they operate, in violation of Section 2 of the Sherman Act, nevertheless the impression to be drawn from the district court's memorandum is that these three companies, each allegedly dominant in its particular territory, combined to control, or, in other words, monopolize, the industry in which they compete throughout the world.[4]

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[4] The district court stated that command of their volume of business "spells out the dominant position of the defendant, British Timken and French Timken both in the *tapered* and *anti-friction* bearing industry" (Mem. par. 15; R. 961); that by 1928 American Timken "became the Titan of the *roller* bearing industry" (Mem. par. 35; R. 965); that, although conflicting claims had been made at the trial "as to the exact percentage of the total *tapered roller* market controlled by" American Timken, the precise figures were unimportant, because its advertising in 1941 to the effect that it was many times over the largest manufacturer of tapered roller bearings in the world, was "sufficient indication of the position of (American Timken) in the industry" (Mem. par. 35; R. 965, 966), and that "British Timken's potent leadership in the industry compared favorably with that of" American Timken, the former having become a "potential formidable competitor in the field *of roller bearings*," and that "the accused agreements between 1928 and 1938 were made between two manufacturers, who on the basis of the evidence, were properly characterized as the largest manufacturer in the world and the largest manufacturer in Great Britain respectively" (Mem. par. 36; R. 966); that in 1928 British

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The italicized words in note 4 below show that it is not clear from the district court's memorandum as to whether the industry referred to was a bearing, anti-friction bearing, roller bearing or tapered roller bearing industry, although the court appears to have had the last named in mind.

Since the decision of the district court appears to have been largely influenced by the theory that American Timken, as the "Titan" of an alleged domestic tapered roller bearing industry, acquired a substantial interest in the "dominant" manufacturer in that industry in England, helped organize, and acquired a half interest in, the "dominant" manufacturer therein in France, and thereafter combined with them to "control" the industry throughout the world, the most useful way to commence the statement of facts would appear to be to define the industry in which the three Timken companies compete with others, describe its operation, particularly with relation to foreign trade, and demonstrate their position in it.

The Scope of the Bearing Industry.

Generally speaking, the bearing industry consists of the manufacture and sale of two types of bearing, namely, friction bearings and anti-friction bearings (Mem. pars. 17-19; R. 961, 962).

(*Continued from preceding page*)

Timken "had grown from infancy in the *bearing* industry to a position of prominence and was a potential competitor with whom (American Timken) had to reckon" (Mem. par. 122; R. 996); that British Timken and French Timken were potential competitors of American Timken in "the *tapered bearing* market," where they were "the largest dealers in tapered bearings in their respective territories," and "occupied dominant positions in the entire *anti-friction bearing* industry" (Mem. par. 144; R. 1001, 1002); that "all that the evidence discloses is an intent to form a smoothly operating combination to control commerce in the *tapered bearing* industry throughout the world" (Mem. par. 146; R. 1002); and that American Timken "acquired substantial interests in a dominant manufacturer of bearings in England, participated in the formation of and invested in the stock of a potential competitor in France" (Mem. par. 160; R. 1005).

Friction bearings merely slide on the shaft and depend solely on oil or some similar substance to reduce friction, while anti-friction bearings consist of a circular group of steel rollers or balls revolving between two circular race-ways which reduce friction between moving mechanical parts (Mem. par. 17; R. 961).

Bearings are subject to one or both of two kinds of pressure, namely, radial load, which consists of pressure from the top, and end thrust load, which consists of pressure from the side. In many instances there is a resultant pressure ~~which is both~~ radial and end thrust load (R. 465, 466). Both ball bearings (R. 38; 477) and roller bearings (R. 38; 477) are designed to take radial and end thrust loads in varying degrees depending on the purpose for which they are to be used. The load on friction bearings, in general, is radial (R. 476). Thus it is seen that competition between particular types of bearings depends to a large extent on the nature of the radial and end thrust loads to which the particular bearing will be subjected in the point at which it is to be located, and, therefore, upon its economy as adequately designed to meet these loads, and the salesmanship of its manufacturer.

Special friction bearings are, in general, much cheaper than anti-friction bearings (R. 484). Many companies which manufacture other products make their own friction bearings and there are other companies which specialize in making them (R. 484-485). There are well over a thousand companies manufacturing friction bearings in the United States alone (R. 484).

Many more friction bearings are produced in the United States than anti-friction bearings (R. 59; 484) and they are in competition therewith "in almost every instance where a piece of mechanism moves" (R. 484). An important part of the business of all anti-friction bearing manufacturers is to induce users of friction bearings to substitute anti-friction bearings therefor (R. 61). Thus, prior to 1922 American Timken's business was practically all in the

automotive field, but at that time it inaugurated a sales program to bring about the use of its tapered roller bearings in the general industrial field, and, since then, one of its greatest problems has been to persuade customers to accept its anti-friction bearings in place of their friction, or "plain," bearings (R. 61-63).

Manufacturers of all types of anti-friction bearings always have been regarded as competing in what is called the anti-friction bearing industry.[5]

There are two general types of anti-friction bearings, roller bearings and ball bearings, tapered roller bearings being a style of the former (Mem. par. 18; R. 962).

There are also other styles of roller bearings consisting principally of the straight and hourglass types (R. 38) and they are used on many applications, in fact "almost every place where there is any mechanical movement" (R. 470, 471).

Ball bearings are of many types for many different purposes (R. 467) and are designed to take radial and some end thrust loads (R. 467). They compete with roller bearings, and particularly tapered roller bearings, as to much the same applications as those as to which roller bearings compete among themselves (R. 474), and had a wide and general acceptance in the trade before tapered roller bearings came on the market, having been in general use for 25 years prior to that time (R. 472). They were brought to America originally from Europe (R. 57, 58; 499, 500).

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[5] They were so regarded for the purpose of organizing an association to enable the industry to conform to the National Industrial Recovery Act, 48 Stat. 195, which has continued as the Anti-Friction Bearing Association, the trade association of that industry (R. 494, 495). Most of the larger producers of anti-friction bearings, including American Timken, belong to the Association (R. 494). Moreover, the United States Tariff Commission, in its reports to the Congress, recognizes that ball and roller bearings, including tapered roller bearings, constitute the anti-friction bearing industry (Deft's. Exh. 173, R. 2223; offered, R. 801), and the amended complaint alleges a combination in restraint of trade in anti-friction bearings (R. 17).

The greatest sales problem which American Timken had, while it was engaged primarily in the automotive field, prior to entering into the industrial field in 1922, was to convince automobile manufacturers that they should use tapered roller bearings instead of ball bearings (R. 57, 58). Aside from the field in which small bearings, such as diminutive types which can be seen only with a magnifying glass (Deft's. Phys. Exh. 54, offered, R. 486), are used almost to the exclusion of roller bearings, and that in which large roller bearings are more practical due to the bulky housing required for large ball bearings (R. 59, 60), ball bearings and roller bearings compete (R. 60, 61).

It is estimated that in at least 90% of the places where anti-friction bearings are used either ball bearings or roller bearings can be applied (R. 489).

As American Timken's vice president in charge of sales testified, "the whole thing becomes a matter of engineering and price and salesmanship" (R. 60). Whether a particular type of anti-friction bearing is used depends upon salesmanship and its economical use in the particular spot (R. 65; 489).

The Method of Marketing Bearings.

While it may be difficult to understand why anti-friction bearings with different designs and types of rollers compete with each other on the basis of salesmanship and economy the answer is clear when the method of marketing them is known.

Unlike many products which are sold to the general public, bearings are sold for incorporation into other end products, such as automobiles and machines of various kinds. Therefore, bearing sales fall into two main categories, namely, original installation business, constituting approximately 95%, and replacement sales, constituting 5%, of business done (Mem. par. 21, R. 962).

Since the introduction of a bearing to prevent friction between a moving part and a stationary part can be ac-

complished by different means, competition for original installation business resolves itself primarily into an engineering design problem. Therefore, sale of bearings for original installation involves contact with the customer by American Timken's sales engineers in competition with those of other manufacturers of all types of anti-friction bearings. They obtain from the customer's design engineers layouts of the end product which show the points at which bearings are to be located. Engineers for the various companies manufacturing ball, straight roller, tapered roller and other types of anti-friction and friction bearings who are competing for the original installation business on a particular machine then prepare layouts showing how their bearings can best be used therein, which are submitted to the customer, accompanied by their respective propositions (R. 43, 61, 64-66; 498). The customer then decides upon the type of bearing to be used, depending upon economy in the price of a suitable bearing and its mounting (R. 65).

American Timken maintains sales engineers in sales offices located in the principal cities of the United States for the purpose of securing original installation business in this manner (R. 498), and British Timken and French Timken do the same (R. 391).

Competition between different types of anti-friction bearings for original installation business ends at the point of the adoption of the design for the specific type to be used in the customer's machine. Once the particular type of bearing is incorporated, other types, with rare exceptions (R. 65), cannot be substituted for replacement so that such bearings must be of the same type and character as the original bearings (Mem. par. 20, R. 962). However, this does not mean that there is no competition for replacement business. Thus, tapered roller bearings manufactured by competitors of American Timken are interchangeable with its bearings (R. 530). Bearing assemblies, manufactured by American Timken and its competitors, consisting of cup and cone, fit the same opening and are interchangeable,

and cups manufactured by the former's competitors are sometimes combined by its customers with cones made by it, or vice versa (R. 534).

Obviously, since, after the original installation of bearings in a machine or other end product has been made no other type ordinarily can be substituted, a satisfied customer is most likely to order a replacement bearing from the manufacturer who provided the bearing originally installed (R. 394; 669; 890). Therefore, the sale of bearings for original installation provides the basis for replacement sales (R. 889, 890).

Replacement business is conducted by American Timken through authorized distributors and stocking jobbers who purchase various sizes of bearings at discounts from list prices which are changed from time to time in order to meet competition (R. 893, 894). British Timken (R. 892) and French Timken (R. 152) follow the same practice. In addition to that which comes to dealers or jobbers, replacement business, consisting of unsolicited inquiries to the manufacturer from persons who have had no previous contact with its sales organization, runs between $15,000 and $25,000 in value per year to American Timken (R. 890, 895).

Thus it is seen that, due to the inherent nature of the bearing industry, competition therein, which depends primarily on ingenuity in the design of bearings to meet the requirements of a particular job and the cost of a particular type thereof as applied to the job, is on a broad scale indeed.

To say, as did the district court (Mem. pars. 19-20, R. 962), that tapered roller bearings, while they compete with other types of anti-friction bearings and to a much lesser extent with friction bearings, nevertheless, because of their design and applicability for particular use, enjoy freedom from competition and fulfill a requirement not supplied or satisfied by others, and to conclude, therefore, that there is a distinct tapered roller bearing industry, is to disregard

completely the great mass of uncontroverted evidence in the record by officials of American Timken and British Timken as to actual conditions of competition in the bearing industry.

One might as well say that SKF is the dominant manufacturer in the barrel type roller bearing industry, or that the Chrysler Corporation is the Titan of the Chrysler motor car industry!

The Position of the Timken Companies in the Bearing Industry.

American Timken was first organized by Henry Timken and his sons, H. H. Timken and W. R. Timken, about 1898 or 1899 as The Timken Roller Bearing Axle Company and was moved from St. Louis, Missouri, to Canton, Ohio, about 1902. It manufactured axles and tapered roller bearings (R. 457). The tapered roller bearing was invented by the joint efforts of Henry Timken and one Heinzelman, and was a patented product (R. 465). American Timken at the present time manufactures tapered roller bearings, alloy steel, seamless tubing and removable rock bits, and employs approximately 16,500 persons (Mem. par. 6; R. 960). Its sales in 1947 were approximately $77,000,000 (Mem. par. 10; R. 960). Although no figures are available as to the position of anti-friction bearing manufacturers in relation to manufacturers of friction bearings, the record discloses that American Timken manufactures approximately 25% of the total production of anti-friction bearings in the United States (Mem. par. 12; R. 961). In 1927, when American Timken acquired British Timken with Dewar, its sales represented approximately 23.6% of those of the domestic anti-friction bearing industry.[6] American Timken

[6] This figure is arrived at by comparing the value of total production of anti-friction bearings in the United States in 1927, $99,849,000, shown by Defendant's Exhibit 178 (R. 2257, offered, R. 849) with American Timken's net sales in that year, $23,590,179 shown by Defendant's Exhibit 229 (R. 2544, offered, R. 948).

manufactures 50% of roller bearings made in the United States (R. 495), and manufactured from 71 to 81.2% of tapered roller bearings produced therein in the years 1941 through 7 months of 1945 (Mem. par. 11, R. 960, 961), and not to exceed 85% thereof in 1927 (R. 54).

In 1927, American Timken was competing in the manufacture of tapered roller bearings with approximately 8 other companies (R. 52, 53), and at the present time competes with 14 manufacturers thereof (R. 69, 70; 490). There are now more manufacturers than ever before (R. 48). It also competes with 18 manufacturers of roller bearings (R. 70, 71; 490), 25 of ball bearings (R. 71) and 6 of special type bearings, such as the SKF barrel type bearing and the spherangular bearing (R. 71). Some of these companies manufacture more than one type of bearing. Among these competitors are Hyatt, a division of General Motors Corporation, which manufactures tapered and straight roller bearings (R. 490), and American SKF, a subsidiary of Swedish SKF, parent of the largest organization for the manufacture of anti-friction bearings in the world (R. 490, 491). Bower which sold $20,000,000 worth of bearings in 1947 (R. 75), and which entered the field about 1927, has grown much faster than American Timken since that time (R. 72). Another strong competitor is New Departure (R. 72).

British Timken and French Timken are much smaller than American Timken.

British Timken manufactured about 5% of anti-friction bearings in England in 1927 (R. 211), and now manufactures about 20% thereof (Mem. par. 13, R. 961). In 1927 it was competing with such ball bearing manufacturers as Hoffman, Ransome & Marles, Skefko, the English subsidiary of SKF, and two other smaller companies (R. 272). Skefko also manufactured tapered roller bearings after American Timken's basic British patents expired in 1924 and had cut heavily into British Timken's market therefor, as will be seen hereinafter. British Timken has manu-

factured from 70% to 90% of tapered roller bearings produced in England since 1927 (Mem. par. 13, R. 961), and employs approximately 2,400 people at the present time (Mem. par. 7, R. 960). Its sales, including those of its subsidiary, Fischer Bearings Company, Ltd., which manufactures ball bearings, totalled $14,700,000 in 1947 (Mem. par. 13, R. 961).

French Timken employs only 510 people (Mem. par. 8, R. 960), and its sales in 1947 totalled only $2,274,723 (Mem. par. 14, R. 961). It manufactures approximately 10% of all anti-friction bearings made in France, including 80% of tapered roller bearings (Mem. par. 14, R. 961). Other manufacturers of tapered roller bearings in France are French SKF, Rossi and Renault, which also manufacture ball bearings and other types of anti-friction bearings (R. 441, 442).

As in the case of American Timken, the high percentage of tapered roller bearings manufactured by British Timken and French Timken is accounted for by the fact that they have pioneered in the field of tapered roller bearings in the markets which they have served. Because the production of ball bearings therein greatly exceeded that of tapered bearings, the ball bearing companies were very well known, and the sale of tapered roller bearings has involved largely displacing ball bearings (R. 396, 397), the tapered roller bearing competing therewith 90% of the time (R. 210).

Some idea of the Timken companies' present position in world trade may be obtained from Defendant's Exhibit 184 (R. 2291; offered, R. 874, 875), a report to the Congress on "Post-War Imports and Domestic Production of Major Commodities" by the Tariff Commission, in which it is stated as to anti-friction bearings (R. 2293):

> "In the United States there are 20 to 30 manufacturers, the largest of which is a subsidiary of an automobile manufacturer. Two large firms are affiliated, respectively, with a Swedish and a British bearing maker.

"The Swedish company (commonly called S.K.F.) has a large plant in Sweden and subsidiaries which are the largest producers in Germany and France. The pre-war output of this company is estimated at about one-third of the world supply."

As to the situation in 1934, see Defendant's Exhibit 173 (R. 2223; offered, R. 801; 2224).

It is quite obvious, therefore, that far from being dominant in the anti-friction bearing industry, in which they compete with others primarily, American Timken and British Timken occupied in 1927, and the three Timken companies occupy now, relatively modest positions in their respective spheres of operation.

Foreign Commerce in Anti-Friction Bearings.

Since the district court held (R. 1174) that American Timken had combined with British Timken and French Timken "in restraint of trade and commerce in anti-friction bearings *between the United States and foreign nations,*" it becomes important to discuss the nature of foreign trade in that general type of bearings.

A great mass of uncontroverted testimony by the witnesses for American Timken and certain of its exhibits disclose (1) that the only practical way for it to develop foreign trade in tapered roller bearings was, in 1927, and is now, by having them manufactured by affiliated foreign corporations managed by nationals of the countries in which they operate, and (2) that, for various reasons, there has been in the past, and is now, little, if any, foreign commerce in anti-friction bearings.

Inability to compete for foreign bearing business except through foreign affiliates.

The foreign countries in which the world's machinery, aside from that built in the United States, is chiefly manufactured are located in Western Europe. Bearings are

invariably components of such machinery, and the demand for anti-friction bearings outside of the machinery producing countries consists of replacement, as distinguished from original installation, business (R. 847). During most of the period from 1928 to date, outside of the United States, Germany was the largest manufacturer of capital goods, the United Kingdom second, and France third (R. 669).

Since practically all of the manufacturing of machinery outside of the United States from 1927 to date, has taken place in the Western European nations, it has been necessary to obtain original installation business from customers located there in order to do any business with them, due to the natural tendency of replacement sales to follow original installation business and, therefore, to go to the manufacturer who originally made the bearings (R. 394; 519-521; 669). For example, if a machine were owned by a manufacturer located in an Eastern European country and the bearings originally installed therein were of German make, they would ordinarily be replaced with bearings of the same German make.

The record discloses without contradiction, in substance, that an American manufacturer of anti-friction bearings, at any time from 1927 on, could not have exported bearings manufactured in the United States to the United Kingdom, France, or the other Western European countries which constitute substantially the only free manufacturers of capital goods in the world outside of the United States, in successful competition with those manufactured therein.[7] See testimony of deVegh, qualified (R. 774, 775) international economist (R. 782, 783; 796; 868); Pascoe,

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[7] The principal foreign countries in which anti-friction bearings have been produced during the period covered by the complaint in this case, 1928 to date of the judgment, are Sweden, Germany, Italy, the United Kingdom, France and Switzerland, probably ranking in the order named (Deft's. Exh. 173, R. 2223; offered, R. 801; R. 2224), all of which are located in Western Europe.

second in command of British Timken and intimately connected with the bearing industry since 1930 (R. 395, 396); Umstattd, President of American Timken, qualified (R. 503, 504) from business experience, study and travel (R. 510, 511); Hess, President of American Bosch Corporation (R. 315), and formerly assistant to the President of American Timken and in charge of its foreign business, qualified also (R. 316, 317; 667, 668), by business experience and visits to British, French and German Timken (R. 667 ; and DeKrafft, qualified (R. 808-812) as a business consultant with foreign experience (R. 824). Lemarie, Director of French Timken, so testified as to the situation in France (R. 443).

It also appears that it was necessary for a manufacturer to establish plants to produce bearings in those Western European countries in which original installation business was to be obtained (R. 392-394; 505-511; 668, 669).

The only countries in Europe in which it would have been profitable during this period to establish a bearing plant were England, France, Germany, and possibly Italy (R. 551).

Not only has it been necessary for an American manufacturer of bearings to operate plants in England, France and Germany since 1927 in order to obtain original installation bearing business therein, but also it has been advisable to operate them under local management with local personnel (R. 505, 506).

There are numerous reasons why establishment of plants in foreign countries, incorporated and operated as local concerns, is necessary.

First, manufacturers of capital goods are reluctant to purchase bearings from producers who are not located nearby because they desire to have speedy technical advice and service available due to the technical nature of the business (R. 392; 513, 514).

Second, there is always a national hostility toward the product of foreigners in countries where there is a strong manufacturing economy, and a pronounced national interest in supporting the product of manufacturers located therein, which has always been of special importance to American Timken because the tapered roller bearing was first developed by it and has been essentially an American product competing largely with the ball bearing, an older product developed locally in the Western European countries before tapered roller bearings were sought to be sold therein (R. 382, 383; 396, 397). Evidence of the "Buy British" attitude in England as early as 1924 appears from a report attached to a letter of October 17, 1924 constituting part of Defendant's Composite Exhibit 236 (R. 2554, offered, R. 944) in which the sales manager of British Timken stated that, while American Timken had offered to send British Timken American-made bearings to help it with its British business, the majority of motor car makers would have only a British-made article (R. 2589); from the fact that Dewar insisted upon British control of British Timken as a condition of his participation in its acquisition in 1927 because a "product made by foreigners though produced here is unpopular. All letterheads must carry a list of directors and the nationality of each other than British" (Deft's. Exh. 16, R. 1735; offered, R. 262); and from Dewar's testimony that a special agreement was made by American Timken and British Timken, for British Timken representation in Argentina, because the British-owned railways in that country wished to place orders for cars and locomotives in England fitted with Timken bearings (R. 181). The same attitude in France resulted in French Timken's having a Frenchman do all its contact work while the director of the company at the time, an Englishman, stayed in the background (Deft's. Exh. 129, R. 2077, 2082; offered, R. 647).

Third, the method of selling bearings for original installation requires the services of engineers who are famil-

iar with the practices of a particular country in which sales are to be made and with the temperament of the customers of that nationality (R. 395, 396; 506; 668).

Fourth, during the entire period from 1927 on, restrictions on imports, exports and foreign exchange imposed by England, France, Germany and other Western European countries have made it necessary to manufacture bearings in those countries in which they are to be sold for original installation, and practically impossible to export bearings manufactured in the United States to those countries in successful price competition with bearings manufactured therein. DeVegh testified at length as to the economic situations in those countries and the various details of the restrictions imposed by them resulting in the evolution of a complete change in foreign trade, commencing in 1914 at the time of World War I, from free competition on the basis of price, regulated only by tariff restrictions, to a trade administered and controlled by governments under rigid licensing systems in which price competition has no place because they are administered according to the political and economic theories of the particular countries which impose them (R. 774-807; 834-888). He testified further as to the restrictive situation with respect to foreign trade resulting from current control of exports, imports and foreign exchange in the United Kingdom since World War II (R. 832-863) and expressed the opinion that, due to the licensing systems, which are designed to encourage full domestic production and permit imports from America only when they cannot be obtained elsewhere without dollars, it will be impossible for an American manufacturer of anti-friction bearings to sell any substantial quantity thereof into the British Empire and the sterling area countries generally in competition with those manufactured in the Empire in the foreseeable future (R. 864, 865) and that the same is true with respect to France and Europe in general (R. 866-868).

The record is replete with practical examples of the effect of these restrictions on trade, such as the inability of British Timken to purchase American tubing after the break in the sterling dollar exchange in 1931 (Deft's. Exh. 116, R. 2034, offered R. 641); the necessity for many years of an import license in Australia and evidence that the article to be imported cannot be obtained from the United Kingdom or from a sterling area country (R. 761, 765-767); and testimony of DeKrafft as to his experiences with English currency controls (R. 817, 821, 823).

Fifth, there is a strong national interest in each country in having an economy which is as nearly integrated as possible and not dependent upon an outside source of supply for such an important item in the economy, particularly from the military point of view, as anti-friction bearings (R. 779, 780). Witnesses gave uncontroverted testimony as to this attitude in England (R. 504); France (R. 443); Russia (R. 392; 753-755; 515, 516); Holland, Spain, Australia and Brazil (R. 393, 394); Canada (R. 510); Germany (R. 750, 751); and Switzerland (R. 755).

Sixth, continental bearings are largely manufactured to metric rather than inch measurements, which makes it much more practical to have a plant in a metric country when sales are to be made there (R. 507).[8]

Seventh, high tariffs in the United Kingdom, France and Germany have made it advisable to establish plants there. Defendant's Exhibit 180 (R. 2259, offered, R. 851) is a schedule obtained from the Department of Commerce showing the latest tariff rates prevailing in various countries, including the United Kingdom, France and Germany as of 1947 (R. 850-852). It indicates that the United Kingdom imposes a tariff similar to our own, namely 33½% ad valorem on roller bearings, and that France ordinarily

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[8] Out of 500 sizes of bearings manufactured by French Timken, 100 to 110 are metric because this is necessary to sell bearings to all companies controlled by the French government (R. 442).

imposes a tariff of 28% thereon (suspended January 1, 1948) plus additional levies on imports of approximately 12.36% which have not been suspended. A high French tariff motivated Hess in 1927 to recommend that a plant be established in France for the purpose of performing at least the finishing operation on bearings in order to avoid the full impact of the French tariff in effect at that time (Deft's. Exh. 32, R. 1834; offered, R. 372; 1838), which was one reason for the joint organization by American Timken and Dewar of French Timken (Hess, R. 378, 379).

The negligible amount of exports and imports of bearings.

As a result of some or all of the foregoing causes, export trade of the United States in anti-friction bearings over the years has been negligible.

Defendant's Exhibit 173 (R. 2223; offered, R. 801), a report of the United States Tariff Commission issued in October, 1934, on the subject of anti-friction bearings (R. 801) analyzes the exports thereof from the United States as follows (R. 806):

> "Domestic exports to principal markets.
>
> "Domestic bearings are exported principally to Canada with lesser amounts going to European countries, Latin American countries, Japan, Australia, and the Philippine Islands with occasional large shipments to Soviet Russia. Export statistics, by principal markets, are given in the following table.
>
> * * *
>
> "Exports from the United States are principally bearings used in the manufacture of automobiles in Canada in plants affiliated with American automobile producers. The balance of the exports are largely repair and replacement parts for American-made machines and devices, and types of bearings not produced in Europe."

Table 13 (R. 2235, 2236) constituting part of Defendant's Exhibit 173, shows that exports to Canada during the cen-

sus years from 1923 to 1933 were consistently higher than to other countries "for the well-known reason that Canada is in its manufacturing geared to American industry, especially to automobile production, and so forth, and is largely supplied by subsidiaries of American corporations located in Canada," (DeVegh, R. 839), and that on the average exports to Canada constituted 64.1%, to the United Kingdom 6.5%, and to France 1.5%, respectively, of exports from the United States (R. 2236). Defendant's Exhibit 175 (R. 2238-2255; offered, R. 842) is a compilation of exports and imports of the ten major producing and consuming countries in the years 1934 and 1938 prepared from original statistics of each individual country (R. 842) which brings Defendant's Exhibit 173 up to 1938 (R. 843). Defendant's Exhibit 176 (R. 2256; offered, R. 847) shows the value of exports of anti-friction bearings from the United States to Europe, the United Kingdom, and the rest of the world from 1927 to 1947, and brings the story of exports from the United States up to date, including the war and post-war years (R. 846). It shows that the bulk of American anti-friction bearings exported went to non-European countries except during the war (R. 847). The figures contained in these tables corroborate for the entire period, 1927 through 1947, the statement quoted from Defendant's Exhibit 173, namely, that exports from the United States consist chiefly of those to Canada for original installation, made to plants affiliated with American manufacturers, and of replacement parts to other regions of the world for American-made machines and devices.

Imports of anti-friction bearings into the United States have also been negligible.

They are analyzed as follows in Defendant's Exhibit 173 (R. 2223; offered, R. 801; 2226):

"The domestic producers have established a high reputation through high quality products and service. Mass production methods are generally used in the American plants, and two of the largest bearing fac-

tories are owned by one of the principal domestic automobile producers.

"Production in Europe is principally in Sweden, Italy, Germany, the United Kingdom, and France. The principal foreign company is Swedish controlled (S. K. F.) and has plants in each of the above countries, except Italy, and in the United States and Czechoslovakia and has agencies and offices throughout the world. This company is as favorably situated as the domestic producers in relation to raw material, equipment, and skilled workmen, and produces high quality bearings. *Imports into the United States are principally from the S. K. F. plants and from Hoffman of England. These imports go largely to their American affiliates and are largely sizes and types which they do not advantageously produce here.* In earlier years large quantities of bearings came from Italy. There is no foreign competition in domestic markets in cheap bearings which represent a very small part of the total domestic consumption."

Table 4 of Defendant's Exhibit 173 demonstrates that exports from the principal producing countries into the United States from 1923 to 1933 were comparatively small. It was stated in the report contained in Defendant's Exhibit 173 that imports amounted to less than 1% of the American production (R. 2226). Defendant's Exhibit 177 (R. 2256A; offered, R. 848) is a table showing the value of imports of anti-friction bearings into the United States from 1923 to 1943, and in 1947, which was prepared from information obtained from the United States Department of Commerce (R. 847; R 848). It shows that, of the European countries known as producers of anti-friction bearings, only Germany, Italy (until 1929), Sweden and the United Kingdom imported regularly into the United States even as high as $100,000 worth of bearings annually, and that, after the 1929 depression, the Italian manufacturer gave up its attempt to sell bearings in the United States (R. 848).

Inability of British Timken and French Timken to compete in the United States.

The uncontroverted evidence in the record is that British Timken could not have sold bearings in competition in the United States in 1927 and thereafter (R. 272, 273; 412, 513, 514), and that this would be more pronounced in the case of French Timken (R. 514). The principal reasons for this condition, which will continue indefinitely, are (1) the high protective tariff of the United States, and (2) the comparatively high cost of manufacture by European manufacturers.

The United States tariff at the present time is 8 cents per pound, plus 35% ad valorem (Deft's. Exh. 182, R. 2283; offered, R. 869). Table 5 of Defendant's Exhibit 173 (R. 2223; offered, R. 801; 2229) shows that from 1923 to 1933 the United States tariff on bearings averaged between 54.4% and 61.9% of the declared value (R. 837). Table 8 shows that the rate on roller bearings varied between 53.6% in 1923 and 65.3% in 1933. In short, duty on an imported bearing would range on the average from 55 to 60% of the value thereof (R. 837). Defendant's Exhibit 183 (R. 2287; offered, R. 870) gives the same type of information for roller bearings in the years from 1926 to 1943 (R. 870). The high tariff would prevent foreign manufacturers from selling their bearings in this country on a profitable basis (deVegh, R. 870). Pascoe (R. 412) and Umstattd (R. 513) based their opinions that British Timken could not have sold bearings on any practical commercial basis in the United States in part on the existence of this barrier.

In addition to the tariff handicap, the cost of production in the United Kingdom and European countries is higher than that in the United States because orders there are much smaller, which prevents "long runs" of bearings on particular orders and necessitates much more frequent setting up of machines, with different tooling, to take care

of different orders for different sizes, thus increasing tremendously the unit cost of production. (R. 333, 640; Deft's. Exh. 115, R. 2034; offered, R. 640). Pascoe testified that for this reason, as well as others, British Timken's price level has always been higher than that of American Timken (R. 411). Defendant's Exhibit 114 (R. 2030; offered, R. 638; R. 2031), a comparison in 1930 of American Timken's costs with those of British Timken, and Defendant's Exhibit 128 (R. 2054; offered, R. 647; R. 2068) a report comparing their standard bearings costs in 1932, show that American Timken's costs were approximately half those of British Timken even after the latter had adopted American methods of production for a period of several years from and after 1927.

Thus for many reasons, it would have been absolutely impractical for American Timken to attempt to compete for original installation business in foreign trade by exporting its products from this country, and the only practical method for successfully introducing its tapered roller bearings in foreign markets was to acquire or create foreign plants, preferably incorporated as foreign corporations and staffed and managed by local personnel, in order to obtain the best results, and to manufacture bearings locally therein; and that it would have been impossible for British Timken or French Timken to compete in this country for business over the period from 1928 on, during which the combination is alleged to have taken place. The conclusions of the district court to the contrary in the face of this mass of uncontroverted evidence are found in paragraphs 204 through 209 of its memorandum (R. 1015 to 1017), and are not convincing.

EARLY EFFORTS OF AMERICAN TIMKEN TO PROMOTE THE SALE OF TAPERED ROLLER BEARINGS IN THE EUROPEAN AND ENGLISH MARKETS.

While the amended complaint alleges that the combination and conspiracy between American Timken and the other two Timken companies had begun in or about the year 1928 (R. 17), it also sets forth certain facts as the "Background of the Conspiracy" (R. 16), and the district court found it to be essential to examine American Timken's prior activities, which the appellee claimed "culminated in the agreements, contracts and understandings to eliminate competition, assailed in this action" (Mem. par. 23, R. 962). The district court placed great importance on this background as appears from the examination of paragraphs 152 through 155 of its memorandum (R. 1003-1004), in which it disposed of one of American Timken's main contentions largely upon the basis thereof.

However, the evidence discussed by the district court in this connection constituted only a very small portion of that introduced, all of which was uncontroverted, and none of which tended to establish in the slightest degree any intention on the part of American Timken to gain control of the industry in which it competed, either alone or by combination, during the "background" period, i.e., from 1909 through 1927.

On the contrary, the evidence discloses merely that American Timken, commencing in 1909, entered into license agreements with a subsidiary of a large English concern which, between 1909 and 1927 proved to be unsatisfactory for two reasons; namely, first, the tapered-roller bearing business in England and on the European continent was not developed by the licensee as actively as it should have been; and, second, certain trademark difficulties developed in respect of the trademark "Timken," the family name of the founders of the company, in England, France and Germany, the full details of which will be explained hereinafter.

In 1909, American Timken, then a young and very small company[9] licensed The Electric & Ordnance Accessories Company, Ltd. (hereinafter called E. & O. A.), a subsidiary of Vickers, Ltd., a large English enterprise "described as manufacturing everything from battleships to baby carriages" (Mem. par. 24; R. 962, 963), to manufacture and sell tapered roller bearings in the United Kingdom under one agreement covering three basic British product patents (Deft's. Exh. 189, R. 2305; offered, R. 936), and, on the Continent, under a second contemporaneous agreement (Deft's. Exh. 190, R. 2322; offered, R. 936, 937), covering two French patents, a Russian patent and a German patent (as soon as the latter could be obtained) upon payment of a royalty of 15% of net sales. Under these two agreements E. & O. A. was licensed to manufacture and sell only "so far as the licensor lawfully can do so," was given an exclusive territory and restricted thereto, was prohibited from manufacturing or selling anti-friction bearings other than those made under the patents, was required to use the mark "Timken" exclusively in the sale thereof and to follow the method of manufacture and the instructions which American Timken was required to provide, and its price was restricted to some extent (Mem. par. 24-27; R. 962-964).

The execution of the two license agreements certainly does not indicate the intention of strong potential competitors to divide the world and eliminate competition, which might be implied from the district court's statement. At the time these agreements were made, American Timken was in its infancy, attempting to promote a new product in competition, principally, with the older well established ball bearing companies, since the tapered roller bearing did not become soundly established in this country until some time in the 1920's (R. 499). E. & O. A. was not a

[9] As late as 1905 American Timken employed only 65 people (R. 57).

"potential" competitor in 1909, since it did not manufacture tapered roller bearings prior to the making of this agreement, but was instructed by Vickers to start their manufacture in that year (R. 427). It was doing work on electrical motors, heating apparatus, etc., and some government ordnance work (R. 427, 428), and commenced the bearing operation in 1909 in one shop about 200 feet by 400 feet with not more than a couple of dozen employees (R. 428).

Thus, actually American Timken in 1909 undertook to arrange for the development of foreign trade in patented tapered roller bearings under the name "Timken" by one of the largest British concerns, having outlets all over the world, at a time when American Timken was not in any position to undertake such distribution on its own behalf.[10]

E. & O. A. continued the manufacture of tapered roller bearings under the patent license agreements until some time in 1920 when the patent rights were assigned to Wolseley Motors, Limited, another Vickers subsidiary (Mem. par. 28, R. 964).

Some time prior to 1924 E. & O. A., or its successor in interest, sublicensed a French manufacturer, Societe Mecanique de Gennevilliers (hereinafter called SMG) under the 1909 license agreements (Mem. par. 53, R. 969).

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[10] The fact that the 1909 license agreements contained provisions that the licensee should

> "* * * use the word 'Timken' exclusively in connection with the Roller Bearings made or sold by it under this agreement and in connection with the sale of such Bearings."

and that,

> "* * * the Licensee shall be entitled to describe itself as sole Licensee within the same limits."

(Deft's. Exh. 189, R. 2305; offered R. 936; Art. XI, R. 2316); (Deft's. Exh. 190, R. 2322; offered R. 936, 937; Sec. 32, R. 2333), demonstrates that American Timken was seeking to project its goodwill ahead of its business by requiring the use of the surname of its founders in connection with the foreign sale of tapered roller bearings. *A license to use the name, therefore, was clearly implied.*

The first two documents in Defendant's Exhibit 236 (R. 2554-2556; offered R. 944) demonstrate that American Timken objected to the transfer of operations from E. & O. A. to Wolseley Motors because it did not view with favor having bearings manufactured by a motor car manufacturer; that it was dissatisfied with operations by E. & O. A.; that Wolseley Motors was attempting to placate American Timken by providing for an entirely separate organization, with separate offices, plant, officials, and staff under an entirely different name, to manufacture the bearings; and that British Timken representatives were denied access to American Timken's plant until a satisfactory agreement was reached about March 29, 1920 (R. 2556). In this connection, it will be noted that the 1909 license agreements were amended by supplemental agreements dated April 6, 1920 between American Timken and Wolseley Motors as the assignee of E. & O. A. (Mem. par. 28; R. 964) and signed by Ely, American Timken's representative, in the presence of an English witness in London (Deft's. Exh. 191, R. 2338; offered R. 936, 937; R. 2342; and Deft's. Exh. 192, R. 2343; offered R. 936, 937; R. 2346), and that British Timken was originally organized on April 20, 1920 (Deft's. Exh. 199; R. 2359; offered R. 937, 938).

The 1920 Modifications of the 1909 Agreements and Efforts to Deal With the Trademark.

Pursuant to this agreement, the 1909 license agreements were modified in 1920 by supplemental agreements which changed them in some unimportant particulars (Mem. pars. 28, 29; R. 964), and further provided that if the principal agreements should be "rescinded" Wolseley should abandon the use of the word "Timken" as part of its name and in all other respects and secure to American Timken the exclusive use thereof (Mem. par. 30; R. 964, 965). This provision did not cover the situation as to what was to be done with the name and trade-mark "Timken" in the

event that the 1909 agreements were not rescinded but instead expired in accordance with their terms, and American Timken was advised by its American trademark counsel that these 1920 supplemental agreements should be revised in order to have the licensee definitely recognize American Timken's proprietary right in the word "Timken" and agree that all rights in that word should revert to it at the expiration of the license agreements (Deft's. Exh. 63, R. 1947, offered R. 579; Deft's. Exh. 66, R. 1952; offered R. 580). American Timken's American trade-mark counsel suggested that it obtain registration of the British trademark in England (Deft's. Exh. 65, R. 1950; offered R. 579), and this led to further correspondence between American Timken, its American trade-mark counsel, British Timken and English trade-mark solicitors with a view to obtaining registration of the mark, first by American Timken and later, when this was found not feasible, by British Timken, subject to an agreement as to its disposition at the expiration of the 1909 license agreements.[11] American Timken instructed its American trade-mark counsel to proceed to obtain registration by British Timken with an agreement for the assignment of the registration by it to American Timken upon termination of the 1909 license agreements, as amended, and to proceed with registration in other European countries without waiting for this matter to be settled (Deft's. Exh. 80, R. 1964; offered R. 586). It thereupon proceeded to obtain registration of the trade-mark in twenty-two countries in the years 1922, 1923 and 1924 (Deft's. Exh. 87, R. 1972; offered, R. 587), including all of the important European countries, except France

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[11] Deft's. Exh. 67, R. 1953; offered R. 580; Deft's. Exh. 68, R. 1953; offered R. 580; Deft's. Exh. 69, R. 1954; offered R. 581; Deft's. Exh. 70, R. 1955; offered R. 581; Deft's. Exh. 71, R. 1956; offered R. 583; Deft's. Exh. 72, R. 1957; offered R. 583; Deft's. Exh. 73, R. 1959; offered R. 584; Deft's. Exh. 74, R. 1959; offered R. 584; Deft's. Exh. 76, R. 1960, offered R. 585; Deft's. Exh. 77, R. 1961; offered R. 585; Deft's. Exh. 78, R. 1962; offered R. 585; Deft's. Exh. 79, R. 1963; offered R. 585.

and Germany in which it could not obtain registrations because the mark had already been registered by others as hereinafter set forth.

American Timken was only able to do this after it registered the surname "Timken" as its mark in the United States in 1921, pursuant to the act of March 19, 1920 which permitted, for the first time, the registration of a surname as a trade-mark in this country (R. 577) because the law of most foreign countries requires an American applicant to supply a certified copy of its home application for the mark.

According to Dr. Ladas, an expert on international trademark law (R. 603-605), prior use of the trademark in 13 of these countries by British Timken, which was doing business therein, put American Timken's registrations of the mark therein in jeopardy, in the absence of an agreement with British Timken (Ladas, R. 609, 610; 613-615).

Unsatisfactory Production and Sales Methods of the Vickers Subsidiary (1920-24).

Umstattd, who commenced to attend the meetings of the officers of American Timken in 1922 (R. 517), testified that they were of the opinion that British Timken was not advancing nearly as fast as American Timken in new fields of endeavor, such as the industrial field, and had not taken full advantage of the technical information which American Timken was passing on to it (R. 517), and that he learned that the British licensee's methods were inferior to American Timken's, its costs were higher and its quality of bearing at that time was quite inferior (R. 517).

This uncontroverted testimony is corroborated by correspondence between Ely, former vice president and treasurer of American Timken (R. 252), and various representatives of Vickers' subsidiary and others, disclosing that American Timken was dissatisfied because of its inferior manufacturing and sales methods; failure to push sales

vigorously in new fields, such as the industrial field; lack of cooperation to observe or take advantage of American Timken's manufacturing methods in order to reduce costs; continuous insistence upon cutting the rate of royalty, which resulted in its reduction from an original 15% to 5% on ordinary business and 2½% on business in England with Ford, one of American Timken's principal customers; and domination of the business by Wolseley Motors, a motorcar manufacturer competing with the other automobile makers, which were the principal prospective customers for bearings. This correspondence is contained in Defendant's Exhibit 236 (R. 2554; offered R. 944), a collective exhibit containing 27 unnumbered documents which illustrate the situation as it was portrayed to American Timken through Ely.

Threatened Claims by British Timken to the Mark, and the Resultant 1925 Amendments to the 1909 Agreements.

Finally, in 1924, after repeated requests by British Timken that the rate of royalty be reduced from 10% to 2½% on large volume business in order to meet competition from Skefko, the SKF subsidiary in England (Deft's. Exh. 236, R. 2554; offered R. 944; R. 2567; 2571, 2577 and 2578), Lothrop, at that time Works Manager for American Timken, was sent to England to observe British Timken's operations and to bring it up to date on American Timken's practices of production (Deft's. Exh. 83, R. 1966; offered R. 586).

Upon Lothrop's return, he advised Ely that the British Timken representatives had given him the impression that American Timken had no right under any condition to the name "Timken" in England (Deft's. Exh. 83, R. 1966; offered, R. 586; R. 1967). On February 23, 1924 Ely received a letter from American Timken's trademark counsel (Pltf's. Exh. 173, R. 1683; offered R. 949, 950) in which

the latter advised that an arrangement which Lothrop apparently had made with British Timken, to refer the matter of the value of the license of its remaining British patents to the British patent solicitors of American Timken and British Timken, was unsatisfactory because it wholly overlooked the license of the trademark from American Timken to British Timken.[12]

A month later, on March 25, 1924, Ely answered British Timken's latest request for a reduction of royalty (Deft's. Exh. 242, R. 2662; offered, R. 946), stating that American Timken's English solicitor, A. J. M. Duncan, would get in touch with British Timken (Deft's. Exh. 243, R. 2668, offered, R. 947), and on the same day wrote Duncan (Deft's. Exh. 83, R. 1966; offered, R. 586), stating that "the one thing we prize over all others is the name 'Timken,' and we must have entire control of this name" (R. 1967), and that, as a last resort "in order to get everything that we desire in clearing the name 'Timken,' and in having entire control of it, we could consider even down to 2½% on the Ford business only, and 5% on all other business" (R. 1969).

Duncan's negotiations with British Timken resulted in an agreement by which the royalty payable by British Timken and by SMG, its French sublicensee, was reduced to 5% on ordinary business and 2½% on Ford business commencing January 1, 1925 (Deft's. Exh. 244, R. 2669; offered, R. 947; Deft's. Exh. 245, R. 2670; offered, R. 947; Deft's. Exh. 246, R. 2670; offered, R. 947; Deft's. Exh. 247; R.

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[12] The trade-mark counsel stated in part (R. 1683):

"* * * Judging from your letter, Mr. Lothrop seems to have in mind that the patent lawyers will undertake to pass on the extent of legal protection afforded to the British licensee by the several British patents with a view to determining the justice of the British Company's claim to a reduction of its royalty. *The defect in this proposition is that it wholly overlooks the trade-mark license, that is to say, the great value to the British Company of the right to use the word 'Timken' on its products and the further great right of excluding you from competition with it.*"

2671; offered, R. 948). The two formal agreements evidencing this modification of the 1909 license agreements as to the United Kingdom (Deft's. Exh. 88, R. 1991; offered, R. 587), and as to Europe (Deft's. Exh. 194, R. 2347; offered, R. 936, 937), extended the prior agreements for a term of five years to January 1, 1929, reduced the royalties as hereinbefore specified, and provided that the name "Timken" should belong exclusively to American Timken, and that British Timken should be deemed to be using it as part of its exclusive license and, upon the expiration of the agreements, should change its name and do everything necessary to secure to American Timken the exclusive right to the name "Timken" (Mem. par. 31, R. 965).[13]

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[13] Section 4 of the agreement as to the United Kingdom (Deft's. Exh. 88, R. 1991; offered, R. 587), provided as follows (R. 1992):

> "4. The name 'Timken' shall belong exclusively to the Licensor Company and during the continuance of the Principal Agreement as modified from time to time the Licensee Company shall be deemed to be using the said name as part of the subject matter of the licence contained in the Principal Agreement and shall have the right to use the said name accordingly and upon the expiration or other determination of the Principal Agreement as modified from time to time the Licensee Company will take such steps as may be necessary to change its name and will otherwise cease to have any right in the said name or to make use of the same in any way and during the continuance and after the expiration or sooner determination of the Principal Agreement as modified from time to time the Licensee Company will execute and do at the expense of the Licensor Company such acts and things as may be reasonably necessary to secure for the Licensor Company so far as practicable an exclusive right to use the said name in connection with bearings and other products dealt in by the Licensor Company and to secure and protect so far as practicable the property and rights of the Licensor Company in respect of the said name and enable the Licensor Company to obtain or preserve the exclusive right aforesaid but nothing herein contained shall in any way affect or restrict the right of the Licensor Company to change its name in any manner during the continuance of this Agreement."

Section 5 of the agreement as to Europe (Deft's. Exh. 194, R. 2347, offered R. 936, 937), was substantially identical (R. 2349).

Continued Unsatisfactory Progress of British Timken After the 1925 Amendments.

Even after this agreement had been reached on June 19, 1924 (Deft's. Exh. 247, R. 2671; offered, R. 948), and although British Timken's request that the royalty be reduced to 2½% on all large volume business had been specifically rejected and had been limited to Ford business, British Timken officials continued to ask for reduction to 2½% on various orders other than Ford business (Deft's. Exh. 236, R. 2554; offered, R. 944; R. 2580, 2581, 2583).

Defendant's Exhibit 236 also demonstrates that in 1924 British Timken was just getting under way in the industrial field (R. 2586); that its sub-licensee in France, SMG, had been a disappointment because of competition from SKF (R. 2586); that in 1925 British Timken was "frankly very disappointed" with the business done by SMG in France (R. 2601); and that in the summer of 1926 E. W. Wooler, an official of American Timken, found on a visit to British Timken that it was using antique equipment (R. 2603), had no interest in new equipment because the management was opposed thereto on account of lack of funds (R. 2605), and that the average Timken bearing prices in England were 10% higher than those of ball bearings, which was a very serious handicap (R. 2604).

At about this time, in 1926, Vickers had become over-extended and was in considerable financial difficulties (R. 230). Wolseley Motors had even been under the necessity of pledging the share capital of British Timken, which it owned entirely, to a bank to support an over-draft which was guaranteed to Wolseley by Vickers (R. 232). Dewar, previously managing director of Vickers' largest subsidiary, director of its Commercial Board, and chairman of its Sales Committee for all its subsidiaries (R. 230, 231), had been appointed Vice Chairman of Wolseley Motors in order to try to save as much as he could for Vickers out of the Wolseley Motors re-organization (R. 230). This undoubt-

edly accounts for the unsatisfactory condition of affairs which Wooler found on his visit.

Thus, the information available to American Timken, both from British Timken, and otherwise, demonstrated that neither British Timken nor its sub-licensee in France, SMG, were giving to it an adequate return for the use of its name and methods in their respective spheres of trade.

Failure of the 1925 Amendments to the 1909 License Agreements to Cure the Trademark Situation.

Although American Timken had obtained for the first time, by means of the 1925 amendments to the 1909 license agreements, specific recognition by British Timken that it and its sub-licensee, SMG, were using the name and trade-mark "Timken" as licensees thereof with a duty to do everything necessary to return it to American Timken upon the expiration of the license agreements, this provision was inadequate because it referred in terms only to the name "Timken," and not to the trade-mark also, and might be construed as merely requiring that British Timken change its name at the termination of the agreements. Moreover, if American Timken were to maintain that this contract was intended also to apply to the trade-mark, its ability to enforce the agreement was doubtful, because under British law at that time a trade-mark could not be assigned in gross and could only be validly transferred to American Timken provided the assignor also transferred its entire business (R. 610, 611). The 1925 supplemental agreements contained no such agreement by British Timken, and American Timken was advised by English trademark counsel in January, 1926 (Deft's. Exh. 99, R. 2005; offered, R. 594; R. 2006), that, in the absence of such transfer of the good will, upon termination of the license agreements it must establish its own rights by user. This would have required it, practically, to establish a plant of its own in the United Kingdom

upon the abandonment of the mark by British Timken and to manufacture bearings there under its trade-mark.

Moreover, American Timken, even after the making of the 1925 supplemental agreements was in a situation in which it was unable to obtain registration of the trade-mark "Timken" in France, because British Timken's sub-licensee in that country, SMG, had obtained in 1921 (Deft's. Exh. 37, R. 1849; offered, R. 447) prior registration thereof (Mem. par. 53, R. 969) without the knowledge of, and to the consternation of American Timken (Deft's. Exh. 81, R. 1965; offered, R. 586; Deft's. Exh. 82, R. 1965; offered, R. 586). SMG's registration in France, being by the first user, was incontestable under French law (R. 612), and American Timken had no claim on SMG, except, perhaps, as a sub-licensee of the trademark from British Timken.

American Timken also had been unable to obtain registration of the trade-mark in Germany because one Prausnitzer, the German representative of British Timken, had already registered the mark there in 1916 (Deft's. Exh. 44, R. 1907; offered, R. 454) and had successfully opposed American Timken's application (R. 292; Deft's. Exh. 89, R. 1993; offered R. 590). Under German law, Prausnitzer, as the first registrant, had incontestable title to the trade-mark, irrespective of prior use (Ladas, R. 613), so that he could exclude American Timken from the German market.

In the course of attempting to reach some arrangement as to these registrations in the United Kingdom, Germany and France by joint registration in 1925 and 1926,[14] American Timken received from its English solicitor (Deft's.

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[14] See Deft's. Exh. 89, R. 1993; offered R. 590; Deft's Exh. 90, R. 1995; offered R. 590; Deft's. Exh. 91, R. 1996; offered, R. 591; Deft's. Exh. 92, R. 1997; offered, R. 591; Deft's. Exh. 93, R. 1999; offered, R. 591; Deft's. Exh. 94, R. 2000; offered, R. 592; Deft's. Exh. 95, R. 2001; offered, R. 592; Deft's. Exh. 96, R. 2001; offered, R. 593; Deft's. Exh. 97, R. 2002; offered, R. 593.

Exh. 98, R. 2003, offered, R. 594), a copy of an opinion which he had obtained from eminent British trade-mark counsel (Deft's. Exh. 99; R. 2005; offered, R. 594), in which they recommended that a pending joint application for registration of the trademark by British Timken and American Timken be abandoned (R. 2006), that the existing agreements be terminated, and that one of two alternatives be adopted, either (1) to make a new agreement, or (2) "*to combine the interests of the Companies by one practically absorbing the other*" (R. 2007).

Early in January, 1927, American Timken's American trademark counsel made the same suggestion, stating (Deft's. Exh. 100, R. 2008, offered, R. 595), that the trademark difficulties with respect to Great Britain, New Zealand, France and Germany "*could be surmounted if you were to take over the business of British Timken.* This would merge the somewhat conflicting titles of yourselves and British Timken, and, from a legal standpoint, is by far the best way of handling the situation" (R. 2008-2009). At the time this procedure did not seem feasible, for American Timken's secretary replied on February 2, 1927 that such a course would be "a very large order, and we do not know now and we may not know for years whether this will be advisable." (Deft's. Exh. 101, R. 2009; offered, R. 595).

Thus, by the beginning of 1927, it was apparent that British Timken, hampered by the financial difficulties of its parent corporation, Wolseley Motors, and the latter's parent Vickers, as well as by its own inefficient management, and its sub-licensee in France, SMG, were not producing satisfactory results for American Timken, and that the best way to dispose of the latter's complicated trade-mark difficulties in Great Britain, Germany and France would be to acquire British Timken if this were possible and practicable.

THE ACQUISITION, BY AMERICAN TIMKEN AND DEWAR, OF BRITISH TIMKEN, AND THEIR CREATION OF FRENCH TIMKEN.

In 1926 Dewar, then Vice Chairman of Wolseley Motors and, therefore, in charge of its subsidiary, British Timken, visited the United States as a member of a British Commission to study economic conditions, and spent some time at American Timken's plant (Mem. par. 37, R. 966). He discussed costs of production with Lothrop, then President of American Timken, with a view to reducing British Timken's costs (R. 234), and on February 11, 1927, sent cost data to Lothrop on the four sizes of bearings which British Timken manufactured in largest quantity (Deft's. Exh. 1, R. 1714, offered, R. 237; Deft's. Exh. 2, R. 1715; offered, R. 237).

In 1927, shortly after his return to England, Dewar first became interested in personally acquiring British Timken. As an officer of Wolseley Motors he knew of the existing contracts between American Timken and British Timken and their terms, and that they would expire on June 21, 1929 (Mem. par. 37; R. 966).

On March 10, 1927 (only two months after American Timken's trademark counsel had recommended that it acquire British Timken, if possible) Dewar wrote to Lothrop advising that he had become chairman of British Timken, that he contemplated making an offer to Vickers for its purchase which would require about £300,000, and that he did not "know whether your company (American Timken) would care to be interested if I were to make such an offer either permanently or on the basis of the money loaned being paid out of profits" (Mem. par. 38; R. 966, 967). Subsequently, on March 28, 1927, Dewar cabled American Timken asking if it would extend its agreement with British Timken for ten years if he took it over, because he would like to do so "but did not think it wise without a ten years arrangement with" the latter. On the next day American

Timken cabled Dewar that it was willing to consider an additional ten-year license and a reduction of royalty, and that British Timken's operation costs could be reduced 25% or more, and further stated that

> "* * * we would be more interested, however, in joining with you in purchasing the company from Vickers and making the necessary investment" (Mem. par. 40, R. 967).

Dewar replied on March 30, stating that the matter was urgent, that it was essential that the company should have British control of its ordinary capital,[15] and that he was prepared to put up approximately half (Deft's. Exh. 7, R. 1725; offered, R. 250).

On the same day American Timken wrote Dewar forwarding a comparison of its costs with those of British Timken, and stating that "we believe it is entirely possible for your costs to be reduced 25% or more" (Deft's. Exh. 3, R. 1716; offered, R. 237), and on the next day, March 31, 1927, cabled Dewar that it was willing to become interested in British Timken to the extent of one-half or more of the amount necessary to acquire and reorganize it, and asking if it should send a representative to close the deal (Deft's. Exh. 8, R. 1725; offered, R. 251). On April 1, 1927, Dewar acceded to this suggestion (Deft's. Exh. 9, R. 1726; offered, R. 251), and on the same day American Timken advised its American trade-mark counsel that it was negotiating the purchase of *a controlling interest* in British Timken, and asked for (Deft's. Exh. 102, R. 2010, offered, R. 596), and obtained (Deft's. Exh. 103, R. 2011; offered, R. 596; Deft's. Exh. 104, R. 2011; offered, R. 597), advice as to what should be done regarding the name registration, and instructed its

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[15] He was of this opinion because British Timken would then be a British controlled company so far as British consumers, including the Government, were concerned, and this was important because foreign controlled companies always met with greater sales resistance in England than British controlled companies (R. 250).

representative that the registration of the name "Timken" in the United Kingdom, France and Germany must be definitely cleared up (Deft's. Exh. 105, R. 2013; offered R. 597; R. 2014).

American Timken thus seized the opportunity to acquire a controlling interest in British Timken, as suggested by both its American and British trade-mark counsel.

Negotiations Between American Timken and Dewar.

Ely, who had left the company on amicable terms, was appointed agent for American Timken in negotiations with Dewar (Deft's. Exh. 11, R. 1727; offered, R. 251; Deft's. Exh. 12, R. 1727; offered, R. 252) and, after he arrived in London on April 13, 1927, had almost daily conferences with the latter covering every phase of British Timken (R. 257). In the negotiations between them, Ely insisted that the name "Timken" should be kept the property of American Timken so far as possible (R. 258). Dewar insisted upon British control of the ordinary operations (R. 259) because a product made by foreigners, although produced in England, was unpopular, and, under foreign control, his investment in the business would be in jeopardy (Deft's. Exh. 16, R. 1735, offered R. 262; Dewar, R. 259-262), and Ely agreed thereto provided American Timken should be protected if the profits of British Timken should fall below a certain figure (R. 259; 263). They agreed that control should go to American Timken if Dewar should become incapacitated or die, and that each should have first options on the other's shares of British Timken in the event that either should desire to sell (R. 264). It was agreed that a company owned and operated by American Timken and Dewar should be organized to manufacture bearings in France because SMG was operating in an unsatisfactory manner (R. 263; 288), because of the French tariff and of French hostility to foreign products and because, also, the largest automobile manufacturer in France, Citroen, had

decided to use tapered bearings (R. 289). They also discussed the German situation and decided to form a German company to operate the same way as in France (R. 263; 292).

During the course of these negotiations, Ely, in England, making his recommendations and report to American Timken, stated in a very instructive letter (Deft's. Exh. 17, R. 1735; offered, R. 265):

> "I feel that there are three plans that should be given consideration.
>
> "1st. Our complete control of British Timken or its successor, without other stock holders, other than qualifying directors' shares, and this is the plan I would recommend if there was available in our organization the proper person or persons, to spend a year to 2 years reorganizing plant, sales etc. capable of contacting properly in Germany, and starting there a small company, and making entirely new arrangements in France. The present arrangement is most unsatisfactory.
>
> "2nd. Our control with a working minority of British interest. This also requires time in making proper and suitable connections and would be probably the best plan, if Mr. Dewar, or a man of his type were available. To my straight question to Mr. Dewar on this set-up, he said 'No' without qualification.
>
> "3rd. British control of new Company, only so long as British control operates Company with satisfactory profit and dividends. This is the plan I now recommend, and will cover in more detail.
>
> "In connection with the third plan its whole success depends upon the ability of the British control.
>
> "This brings us to Mr. Dewar—* * *."

Ely then recommended the third plan because Dewar was willing to accept it and was a man of exceptional ability and business contacts. He stated that Dewar expected to cut British Timken costs twenty to twenty-five per cent

with American Timken's assistance and wanted the latter "very much *as partners*,"[16] because, as a partner, it would then have an interest in the profitable operation of British Timken.

On May 12, 1927, pursuant to an agreement reached with Dewar, American Timken offered to purchase all of the shares of British Timken from Vickers, provided that an arrangement satisfactory to the purchasers should be made with Prausnitzer by British Timken (Deft's. Exh. 19, first document, R. 1742; offered, R. 267). This condition was withdrawn on Ely's recommendation that American Timken and Dewar deal directly with Prausnitzer (Deft's. Exh. 20, R. 1743; offered, R. 268), and the offer was accepted (Deft's. Exh. 19, second document, R. 1742; offered, R. 267). In Ely's cable advising American Timken that the offer had been accepted by Vickers (Deft's. Exh. 20, R. 1743; offered, R. 268), he stated that "an old agreement of Vickers with Prausnitzer provides for cancellation and surrender of name which solicitors feel could be accomplished with slight if any cost." This demonstrates that one of American Timken's purposes in purchasing a one-half interest in British Timken was to cure the German trade mark situation.

The Basic Agreement Between American Timken and Dewar.

On May 16, 1927, American Timken and Dewar executed a written instrument called "Heads of Agreement" which constituted in effect the memorandum of the concurrence of the parties on the basic subject matter of the negotiations, to be later "embodied in more formal documents as soon as practicable" (Mem. par. 41; R. 967).

This document (Deft's. Exh. 15, R. 1730; offered, R. 260) provided (1) that American Timken would contribute

[16] Dewar confirmed making this statement to Ely (R. 262; 265).

£52,500 and Dewar £47,500 (i.e. 52½% by American Timken, and 47½% by Dewar) for the purchase of the entire 50,000 shares of stock of British Timken, 26,250 to be issued to American Timken and 23,750 to Dewar; (2) that the articles of incorporation of British Timken should be altered to provide for two classes of shares, Dewar to own the majority of the "A" class, which should control the company with respect to its ordinary affairs until a minimum net profit of £15,000 was not earned and a dividend of "twenty-five per cent gross" was not paid in any year, in which event such control should pass to American Timken, as owner of a majority of the shares of the "B" class; (3) that shareholders should be able to transfer shares with the consent of the majority, but must first offer them to the other shareholders; (4) that Dewar was to be the managing director while the shares he owned controlled the company; (5) that upon his death, or incapacity for six months to perform the duties of director, American Timken should have the right to purchase his shares; (6) that a new agreement should be entered into between American Timken and British Timken extending for ten years the terms of the existing 1909 license agreements between them, subject to modifications, and generally upon terms and conditions to be mutually agreed upon, including among others, any practical steps to be taken for the protection of the name "Timken," and securing the exclusive reversion thereof in all countries to American Timken at the termination of the new agreement; and (7) that arrangements should be made for the formation of continental companies for the manufacture and/or sale of bearings subject to a royalty to be divided between American Timken and British Timken.

The Comparative Insignificance of British Timken at the Time of its Purchase.

At the date of the purchase of British Timken by American Timken and Dewar, British Timken even though it was manufacturing a large percentage of the tapered roller bearings made in the United Kingdom because it had specialized in their manufacture, was by no means the "dominant" manufacturer of bearings and "potential competitor (in 1928) with whom defendant had to reckon," which the district court pictured it to be (Mem. par. 122; R. 996). At this time, British Timken owned virtually no manufacturing equipment, and that which it owned was obsolete (Deft's. Exh. 31, R. 1800; offered, R. 318; R. 1801); it leased its plant and machine tools from Wolseley Motors (R. 240, 241); had practically no assets, *other than a certain amount of good will* [17] (R. 241); its largest net sales in its history to that time were £240,202 in 1926 (Deft's. Exh. 230, R. 2545; offered, R. 943), or approximately $1,000,000, as compared with American Timken's $24,362,805 of sales in that year (Deft's. Exh. 229, R. 2544; offered, R. 943); it employed not to exceed 500 people and manufactured not to exceed 100 sizes of tapered roller bearings, mostly automobile sizes (R. 430) while American Timken was employing between 3500 and 4000 people as early as 1919 (R. 456), and in 1927 was making 887 cone, 359 cup, and 54 thrust bearing sizes (Deft's. Exh. 185, R. 2296; offered, R. 902); even three years later, in 1930, its cost of manufacture of three of the four sizes of bearings which it produced in the largest quantities was approximately 200% of American Timken's on two sizes, and 135% on the third (Deft's. Exh. 114, R. 2030; offered, R. 638); its management was "more

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[17] This goodwill, consisting of the right to use the name and trademark "Timken," was valued by Ely at £30,000 out of £100,000 paid for British Timken (Deft's. Exh. 20, R. 1743; offered, R. 268), yet in 1927 the right of Vickers' subsidiary to use that name was to terminate in one and one-half years under the 1909 license agreements.

or less asleep," as Ely advised American Timken during the negotiations (Deft's. Exh. 17, R. 1735; offered, R. 265; R. 1739); the existing license agreement between American Timken and British Timken had only about one and a half years to run; and, as Dewar testified in substance, the latter probably could not have continued to manufacture and sell bearings in the absence of the relation it had had with American Timken (R. 276).

The Implementation of the Heads of Agreement of 1927.

Pursuant to a more formal agreement, made on March 16, 1928 (Deft's. Exh. 197, R. 2354; offered, R. 937), which carried out the Heads of Agreement in accordance with its provision that the agreements therein should be embodied in a more formal document, American Timken and Dewar jointly caused the following things to be done.

New by-laws (Deft's. Exh. 198, R. 2356; offered, R. 937) and new articles of association (Deft's. Exh. 199, R. 2359; offered, R. 937; R. 2363, 2364) of British Timken were adopted. The by-laws carried out the agreement between American Timken and Dewar as to control (R. 2356-2358) and Section 26 of the amended articles gave shareholders the first refusal on each others' stock (R. 2371-2373).

An agreement was made between British Timken and Dewar which made him managing director thereof (Deft's. Exh. 24, R. 1763; offered R. 278).

An agreement was entered into between American Timken and Dewar as to options on shares of British Timken (Deft's. Exh. 200, R. 2394; offered, R. 938) which gave the former an option on Dewar's shares in British Timken as well as in any subsidiary company controlled by British Timken in the event of his death or incapacity, and gave each party the first refusal of the other party's shares in British Timken and in every subsidiary company in the event that either should desire to sell. This agree-

ment was supplemented by a contemporaneous agreement (Deft's. Exh. 201, R. 2397; offered R. 938).

A business agreement (Deft's. Exh. 23, R. 1754; offered, R. 274) between American Timken and British Timken was entered into as of January 1, 1928 to be in effect for ten years, and all existing contracts between them were cancelled (Mem. par. 47, R. 968). It contained all the essential features of a trademark license, including provisions for the use of the trademark "Timken," for the preservation of its distinctiveness as such by both parties, and for its return to American Timken at the termination of the agreement. It also contained the essential requirement that American Timken would supply British Timken with technical information regarding the design and manufacture of bearings which British Timken was required to follow. It provided for the areas in which British Timken was authorized to use the mark and the term of such use. It also contained provisions for patent licenses between the parties and for the exchange of engineering know-how between them. This agreement established equitable ownership of the English trademark in American Timken under the then existing English law (Ladas, R. 612), and amounted thereunder to a waiver by British Timken of any right it might have had to set aside, on the ground of prior user by British Timken, registration of the trademark "Timken" in any foreign country in which American Timken had registered the trade mark (Ladas, R. 615, 616).

An agreement was entered into by American Timken, British Timken, Dewar and Prausnitzer (Deft's. Exh. 44, R. 1907; offered, R. 454; Deft's. Exh. 45, R. 1922; offered, R. 454) on March 13, 1928 by which American Timken, British Timken and Dewar acquired the majority of an increased issue of common shares of Prausnitzer's company, Deutsche Timken Gesellschaft (hereafter called German Timken), gave Prausnitzer a 20 to 25% interest in it and named him manager in exchange for the trade mark (Mem. par. 57, R. 970), and the articles of incorporation of German

Timken were changed in such a way as to give to British Timken control (through ownership of a special class of stock) of its management in ordinary matters, and to American Timken control of extraordinary matters, and to the other shareholders first refusal of Prausnitzer's stock in the event of his death, incapacity, insolvency or retirement.

A business agreement between British Timken and German Timken modeled upon the business agreement of January 1, 1928 between American Timken and British Timken was entered into (Deft's. Exh. 47, R. 1935; offered, R. 454) which allocated Germany as German Timken's exclusive territory for the distribution of anti-friction bearings (Mem. par. 57, R. 970). German Timken was discontinued in 1934 (Mem. par. 57, R. 970) when "the Hitler situation became rather acute" (R. 293).

On July 11, 1928, pursuant to correspondence (Deft's. Exh. 202, R. 2399; offered, R. 938; Deft's. Exh. 203, R. 2403; offered, R. 938; Deft's. Exh. 204, R. 2403; offered, R. 939; Deft's. Exh. 205, R. 2404; offered, R. 939) between American Timken, Dewar and Duncan, American Timken's British solicitor, statutes of incorporation of French Timken were adopted (Deft's. Exh. 206, R. 2412; offered, R. 939), drawn in such a way as to give to British Timken control (through its special B shares) over its ordinary affairs, and to American Timken over extraordinary matters. The B shares were originally owned by British Timken (Deft's. Exh. 250, R. 2673; offered, R. 956; Deft's. Exh. 251, R. 2673; offered, R. 956), thus carrying out the arrangement for ordinary control of the enterprise by Dewar through British Timken. As shown by Defendant's Exhibit 249 (R. 2672C; offered, R. 956) American Timken in 1928 advanced all of the funds necessary for the initial operation of this company and thereafter its investment was never less than 70% of the funds actually invested therein.

A business agreement on the model of the one between American Timken and British Timken was entered into

between British Timken and French Timken on June 16, 1928 (Deft's. Exh. 29, R. 1789; offered, R. 291).

French Timken purchased from SMG the trademark rights and the name "Timken" (Mem. par. 54, R. 969), commenced operations by first importing semi-finished products from British Timken, and by 1933 was engaged in the manufacture of all the component parts of tapered roller bearings (Mem. par. 56, R. 969, 970).

MAINTENANCE OF THE JOINT ADVENTURE, AND OF THE TRADEMARK LICENSES, SINCE 1927.

The original agreement between American Timken and Dewar obviously contemplated that he should contribute his skill, sales contacts and active management of the enterprise, and that American Timken should license its trademark and contribute its know-how, and general backing, during a period which was to extend for at least ten years. Upon termination of this relationship, into which American Timken entered primarily because of Dewar's personal characteristics and ability, by Dewar's death, American Timken was protected by its options to acquire his stock and thus take over control of the companies acquired or organized pursuant to the venture, and ultimately to have its trademark rights returned to it. In the meantime Dewar was to control the operations of the companies while managing them.

This fundamental arrangement was maintained at all times. Even when a portion of the stock of British Timken was sold to the public in 1935, the parties were careful to maintain joint control thereof at that time, so that American Timken now owns 30.26%, and Dewar's estate 23.74%, of its issued and outstanding common shares. Thus, the other stockholders of British Timken have been allowed to participate in its profits but have had no real voice in its management. The contractual arrangements for this joint control of British Timken were maintained consistently at all times, as will be seem.

The fact that there was a definite joint adventure, is demonstrated by a vast amount of evidence, not commented on by the district court,[18] which shows (1) that American Timken and Dewar maintained their basic relationship throughout, even when adjustments as to the companies controlled by them were made from time to time to meet changes in circumstances; and (2) that British Timken and French Timken, making and selling bearings under the trademark "Timken," were operated in close collaboration with American Timken, practically as parts of one enterprise in the foreign field.

Transactions Involving Adjustments by American Timken and Dewar as to Companies Controlled by Them.

The significant transactions which demonstrate how the essential relationship between American Timken and Dewar was maintained up to the time of his decease are as follows.

In 1929 Porter, Vice President in charge of automotive sales of American Timken at the time (R. 51), visited British Timken (Deft's. Exh. 113, R. 2025; offered, R. 637; R. 2025), and inaugurated negotiations with Dewar. Defendant's Exhibits 207 through 227[19] demonstrate that an

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[18] The district court appears to have considered such evidence, as well as other evidence relating to the business agreements between the Timken companies, unimportant, stating as to the latter, that testimony as to why they were modified and extended and various covenants were inserted in them, and why the present contracts have such long duration, are "of no significance" because "the controlling facts are that they were made and that they contained certain provisions" which might make them illegal under the Sherman Act (Mem. par. 67, R. 971, 972).

[19] Deft's. Exh. 207, R. 2450; offered, R. 939; Deft's. Exh. 208, R. 2451; offered, R. 939; Deft's. Exh. 209, R. 2451; offered, R. 939; Deft's. Exh. 210, R. 2451; offered, R. 939; Deft's. Exh. 211, R. 2452; offered, R. 939; Deft's. Exh. 212, R. 2452; offered, R. 940; Deft's. Exh. 213, R. 2453; offered, R. 940; Deft's. Exh. 214, R. 2453; offered, R. 940; Deft's. Exh. 215, R. 2454; offered, R. 940; Deft's. Exh. 216, R. 2454; offered, R. 940; Deft's. Exh.

(Continued on following page)

increase in capitalization in French Timken was desired at that time in order to handle the business of Citroen, the largest French motorcar manufacturer, which was going to give French Timken its business (R. 289).

Dewar, however, was unwilling to invest more of his own funds in French Timken because his interest in the enterprise was at the maximum. Strough, secretary of American Timken at the time (R. 586), cabled Porter that "Dewar should not object to our desire to keep him *equal partner* in growing business" (Deft's. Exh. 221, R. 2457; offered, R. 941), and that American Timken was willing to increase Dewar's financial compensation, assuming that he would obligate his share of the venture for the funds advanced by it to keep him an equal partner.

Dewar proposed that American Timken advance the necessary funds to French Timken and that one-third of British Timken's profits after 1929 be devoted to repaying the advances (French Timken common stock to be issued in their place), subject to the condition that the 1928 ten-year business agreement between American Timken and British Timken should be extended to fifteen years (Deft's Exh. 219, R. 2456; offered, R. 940).

The business agreement was extended by a letter agreement (Deft's. Exh. 25, R. 1766; offered, R. 280), and Dewar's proposal was carried out by a complicated program, which preserved the essential relationship between the parties, although it changed the form thereof to some extent. The parties transferred their French Timken common stock to an American holding company, International & Commercial Investments, Inc. (hereinafter called ICI); their sub-

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(Continued from preceding page)

217, R. 2455; offered, R. 940; Deft's. Exh. 218, R. 2455; offered, R. 940; Deft's. Exh. 219, R. 2456; offered, R. 940; Deft's. Exh. 220, R. 2457; offered, R. 940; Deft's. Exh. 221, R. 2457; offered, R. 941; Deft's. Exh. 222, R. 2459; offered, R. 941; Deft's. Exh. 223, R. 2460; offered R. 941; Deft's. Exh. 224, R. 2462; offered, R. 941; Deft's. Exh. 225, R. 2465; offered, R. 941; Deft's. Exh. 226, R. 2474; offered, R. 941; Deft's. Exh. 227, R. 2476; offered, R. 942.

scriptions thereto being in the ratio of 105 for American Timken to 95 for Dewar, or 52½% for American Timken to 47½% for Dewar, the ratio of their original investments in British Timken, and, by means of the corporate structure of ICI and agreements between the parties at that time, arrangements were made for Dewar to control French Timken until it should fail to earn 15% on its invested capital, American Timken obligated itself to purchase preferred stock of ICI in order to provide funds which the latter could invest in French Timken, and a British Timken annual dividend of one-third of its annual profits was devoted to purchase of ICI common stock until its preferred stock should be retired. These agreements are incorporated in Defendant's Exhibits 224 (R. 2462; offered, R. 941), 225 (R. 2465; offered, R. 941), 226 (R. 2474; offered, R. 941), and 227 (R. 2476; offered, R. 942). The parties thus, in effect, mortgaged one-third of Dewar's profits in British Timken to pay for his increased interest in French Timken, while maintaining the same essential relation as between them with respect to French Timken.

Again, in 1934, when the value of British Timken stock had increased greatly, Dewar desired to realize on part of his investment therein and to avoid the existing arrangement by which his share of one-third of the profits was used to pay for his interest in French Timken through purchase of common stock in ICI. He therefore came to this country and presented to American Timken's officials a memorandum, as a basis for negotiations, in which he proposed that he and American Timken should each sell a portion of their shares in British Timken on the British market while maintaining control thereof through the formation of a holding company (Deft's. Exh. 26, R. 1766; offered, R. 281). At this time American Timken had invested in French Timken, pursuant to the arrangements made in 1929 to increase its financing, either by purchase of preferred shares of ICI or by loans, over $823,000 as against Dewar's investment of $31,960 (Deft's Exh. 249, R. 2672C; offered, R. 956). In

this memorandum Dewar discussed French Timken's losses, pointed out that its control under the existing agreements should pass into American Timken's hands, stated that he would like, either to have the latter take over, or to make a new arrangement for his control, and asked for cancellation of the existing agreements and a new agreement for a definite sum to be invested by him in ICI (R. 1769, 1770).

As a result of these negotiations, Heads of Agreement (Deft's. Exh. 228, R. 2483; offered, R. 942; first document, R. 2483) were executed on August 15, 1934, by which the parties rearranged their joint venture to provide (1) for an increased number of shares of British Timken, all of one class, American Timken and Dewar each to sell one-half of their holdings thereof to the public at a specified price; (2) for transfer of the remaining 50% of shares of British Timken owned by Dewar and American Timken to a holding company organized in such a way as to maintain the same rights as to voting control between them as had been provided formerly by the articles of association and by-laws of British Timken and with the same options of the parties on each other's shares in the event of sale; (3) for adjustment by American Timken and Dewar (contingent upon consummation of the sale of British Timken stock to the public) of their interests in French Timken, German Timken and ICI, and its wholly-owned subsidiary, International Bearings Investments, Inc. (hereinafter called "IBI") pursuant to which American Timken and Dewar would each own a one-half interest in each of these corporations, Dewar would pay American Timken $250,000 in cash out of the proceeds of the sale of his British Timken stock, and would give it his note without interest in the amount of $150,000, secured by pledge of his one-half interest in French Timken, German Timken, ICI and IBI, and payable only from distributions with respect thereto in excess of $7500 per year, he to have control of French Timken during his lifetime and active management thereof until it should fail to pay annually $24,000 in dividends or other distribu-

tions from accrued earnings, and control to pass to American Timken in the event of his death, retirement, or in the event of French Timken's failure to make such payments; (4) for amendment of the 1928 business agreement between American Timken and British Timken in certain respects, and its continuance in effect for fifteen years after the sale of the British Timken stock to the public, and (5) for freeing of French Timken from any obligation to pay royalties or service fees to American Timken or British Timken.

Acting pursuant to the Heads of Agreement of August 15, 1934, American Timken and Dewar caused various agreements and other documents to be executed for the purpose of carrying them out. Defendant's Collective Exhibit 228 (R. 2483; offered R. 942) contains, in addition to the Heads of Agreement, certain of the documents and correspondence relating to this matter which show that the parties caused corporate action to be taken by British Timken and made a series of agreements in the fall of 1934 to be effective if and when the British Timken stock should be sold (R. 2488-2495; 2509-2511; 2523-2525); caused the sale in June, 1935, of 50% of their increased stock in British Timken (R. 2525, 2526), American Timken purchasing 10,000 shares at the sale,[20] and the organization of a holding company known as Timken Holdings, Limited,[21] to "continue the implementation" (Dewar, R. 282, 283) of the original agreement as to control of British Timken as between American Timken and Dewar, as specified in the Heads of Agreement, by means of class A and B shares of Timken Holdings (R. 914, 915; 2513; 2526-2528; 2529-2533); and deposited in the Westminster Bank of London, England,

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[20] This was done because American Timken felt that "it should maintain somewhat greater ownership" in British Timken than was reached by its joint holdings with Dewar (R. 912).

[21] Plaintiff's Decree Exhibit 7 (R. 2697; offered, R. 1159, 1160) is a copy of the articles of incorporation and by-laws of Timken Holdings, Ltd.

in the joint names of American Timken, Pascoe and a Luxembourg corporation, called the Lux Company, Dewar's holding company,[22] as trustees, all of the stock of, and 236 promissory notes issued by, French Timken, pursuant to a trust agreement providing for the pledge of Dewar's interest in French Timken and German Timken, which had now become one-half thereof, to secure payment of his note to American Timken as specified in the Heads of Agreement of August 15, 1934 (R. 2534-2543).

This agreement provides in substance for the payment of the Lux Company's $150,000 note to American Timken out of Dewar's share of the profits from French Timken and also from German Timken's assets, and assures American Timken control of French Timken if its indebtedness is not reduced by $24,000 in any year after 1927. At the present time there is a balance of $165,000 in the Westminster Bank account (R. 920) available to repay the balance of American Timken's advances to French Timken, and thus to enable it to salvage some of its unequal investments in that company.

Thus, in 1934 and 1935, American Timken, in order to keep Dewar satisfied, permitted sale of 50% of their British Timken stock to the public, insured its control by purchasing 10,000 shares at the sale, and made careful provision with Dewar to preserve their control of British Timken and also their relation as between themselves both as to British and French Timken. Dewar was permitted to realize on part of his investment but, as a condition, was required to pay $250,000 of the proceeds toward his half interest in French and German Timken in accordance with the policy previously exhibited (Deft's. Exh. 211, R. 2452; offered,

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[22] The Lux Company was a holding company for Dewar, apparently referred to as the Luxembourg Company No. 2 in a previous agreement of September 29, 1934, providing for the procedure, contingent upon sale of the shares of British Timken, which was subsequently carried out (Deft's. Exh. 228, R. 2483; offered R. 942; R. 2495, 2496).

R. 939) to keep him "an equal partner in a growing business."

In connection with this rearrangement of the relations between themselves, the parties caused American Timken and British Timken to enter into a new business agreement (Mem. pars. 58-62; R. 970, 971) effective January 31, 1935, which incorporated some changes requested by Dewar in his memorandum which constituted the basis of the 1934 negotiations between the parties. Although this agreement was originally effective for 16 years, it was subsequently amended to extend for 30 years to January 1, 1935 (Deft's. Exh. 131, R. 2090; offered, R. 654; Deft's. Exh. 132, R. 2092; offered R. 655; Deft's. Exh. 133, R. 2092; offered, R. 655; Deft's. Exh. 134, R. 2093; offered, R. 655; Deft's. Exh. 135, R. 2093; offered, R. 656) at the insistence of the English brokers with whom Dewar negotiated because they felt British Timken stock could not be sold to the public without a long-term agreement with American Timken "particularly for the use of the name," since the good will of British Timken "rested largely in the association with" American Timken (Dewar, R. 284).

The business agreement of June 19, 1928 between French Timken and British Timken was also modified in a new contract, on July 15, 1935 (Mem. par. 63, R. 971), which incorporated the amendments agreed upon by American Timken and Dewar in the Heads of Agreement of August 15, 1934.

Another significant transaction occurred in 1936 when Dewar recommended to American Timken certain action with respect to the funds of French Timken (Deft's. Exh. 231, R. 2547; offered, R. 943; Deft's. Exh. 232, R. 2547; offered, R. 944; Deft's. Exh. 233, R. 2548; offered, R. 944; Deft's. Exh. 234, R. 2551; offered, R. 944; Deft's. Exh. 235, R. 2553; offered, R. 944), which he stated was equivalent to taking such funds away from French Timken's control but "*so far as our partnership is concerned*" was for its ulti-

mate benefit (Deft's. Exh. 233, R. 2548; offered, R. 944; R. 2549).

In 1938, the parties caused two new business agreements to be entered into, one between American Timken, British Timken and French Timken (Deft's. Exh. 27, R. 1771; offered, R. 291), and the other between American Timken, British Timken and Dewar respecting the operations of French Timken (Deft's. Exh. 28, R. 1780; offered, R. 291), amounting in effect, to a guaranty by the latter's shareholders of its performance of the first 1938 agreement (R. 916; 930-931), which superseded the preceding business agreements, and were to govern their relations until the date specified in the 1935 amendments to the 1928 business agreements, namely, 1965 (Mem. par. 64; R. 971).

In March, 1948, in connection with a new issue of preferred stock by British Timken (R. 923), American Timken and Dewar rearranged their relations with respect to British Timken for the last time and entered into an agreement (Deft's. Exh. 239, R. 2656; offered, R. 945) which permitted Dewar to withdraw his British Timken stock from the control of Timken Holdings, Limited, and a contemporaneous agreement (Deft's. Exh. 240, R. 2659; offered R. 945) which took the place of Timken Holdings, Limited, in defining and maintaining the relation between the two parties. The latter agreement gives American Timken an option to purchase specified shares, constituting all the ordinary shares of British Timken owned by Dewar at the time of the agreement (which constituted 23.74% of its voting stock) in the event of his death or his being incapacitated for six months to act as its director, or in the event that he desires to sell his shares, and also gives American Timken the right to control the vote of Dewar's shares combined with its shares if at any time the profits of British Timken available for dividends based on an average of three consecutive years are reduced below £50,000 for one year.

The Mass of Technical Information and Assistance Supplied by American Timken to British Timken and French Timken Under the Joint Venture and Pursuant to the Trademark License.

At all times since the inception of their relation in 1927 the basic plan of operation between American Timken and Dewar has been to manufacture bearings in England, France and Germany to be interchangeable with bearings manufactured by American Timken, according to methods developed by it, and accompanied by its full collaboration in giving British, French and German Timken the benefit of patents and know-how which it has developed over the years. The uncontroverted evidence of Umstattd (R. 521, 522), Dewar (R. 105; 176, 177), Pascoe (R. 400, 401; 414, 415) and Hobley, former sales manager of British Timken (R. 173; 438), is, in substance, that the whole purpose of the parties was to sell Timken bearings all over the world in competition with bearings manufactured by competitors and that if for some reason one Timken company could not sell advantageously in a portion of its territory another should make the sale.[23] This system, of course, has overcome difficulties resulting from conditions of foreign exchange and production facilities of the companies (R. 521). The foreign Timken companies have been able to sell immediately types of bearings which they were not equipped to produce in large quantity by calling upon American Timken to supply them until they were tooled up to produce on a commercial basis if the market warranted (Dewar, R. 115; Pascoe, R. 400; Moreland, R. 748-750). The same reasons that make it advisable for American Timken, in the conduct of its operations in

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[23] In the event of such sales the company making the same pays compensation of a specified percentage, or other amount, to the company in whose territory the sale is made, for the selling and servicing job performed by the latter (R. 417), as in Australia during the last war (R. 417) where British Timken was maintaining technical engineers at its own expense (R. 414, 417).

the United States, to divide its sales activities among district offices which do not compete with each other in their respective districts, dictate the same policy as between the associated Timken companies (R. 933).

The fundamental basis of this joint method of operation has been interchangeability of bearings manufactured by the three companies, which are in most instances identical (R. 106; 406, 407). The part numbers of new bearings developed by American Timken, British Timken and French Timken are assigned by American Timken according to a system maintained by it and kept in its master book in its engineering department in Canton (R. 406, 407; 695-697), and blueprints covering the design of new bearings are automatically exchanged as a matter of routine (R. 406, 407; 692).

A substantial amount of American Timken's uncontroverted evidence, all of which was ignored by the district court, demonstrates in detail the close cooperation which has existed between American Timken and British Timken and French Timken for the purpose of securing integrated production and sale of bearings under the trademark "Timken," consisting largely of the transfer of "know-how" from American Timken to British Timken and French Timken in order to establish and maintain in them American Timken's methods in the design, production and sale of tapered roller bearings.

The policy of installing and using American Timken's methods in the operation of British Timken and French Timken to the greatest extent practicable has never been departed from, and is being maintained today. Dewar himself testified that it had always been British Timken's policy to carry out American Timken's suggestions (R. 311, 313), and that, in his opinion, it was "difficult to conceive that we could have started out" without its cooperation (R. 276). Pascoe testified that there is a constant "stream of information" from American Timken (R. 407-409) as to production methods, machines and products which has

helped British Timken materially in reducing its costs and increasing production (R. 410, 411). British Timken's methods are practically identical with those used by "Timken America" (Ellis, R. 433, 434). The same know-how has been communicated principally by British Timken to French Timken (R. 309; 419), and has been practically all one way, from American Timken to the foreign Timken companies (R. 527).

With respect to the all important design of bearings to meet the requirements of customers for original installation business, when British Timken develops a need for a certain bearing, it cables American Timken for a bearing of a certain size and designates the dimensions, and American Timken then works out the design and sends British Timken the part number and detailed prints as soon as possible together with prints of the tooling to be used in manufacturing it (R. 694).

In addition to designing new bearings for British and French Timken, American Timken gives them its new ideas with respect to designs and any information which they may request for bearing applications which it is making. It sends British Timken copies of its weekly reports to heads of sales and engineering departments showing the type of work and bearing applications being done for its customers (R. 708-711). Defendant's Exhibit 163 (R. 2141; offered, R. 710), and Defendant's Exhibit 163A (R. 2146; offered, R. 710) are typical reports. If British Timken requests it, American Timken gives it the same complete information which it would give to its own men in the field with respect to any particular bearing application (R. 711, 712). Defendant's Exhibit 164 (R. 2153; offered, R. 713) is a tabulation of all of this type of work which American Timken has done for British Timken and French Timken from 1937 to date (R. 713, 714).

In addition to this assistance in the design and application of bearings, American Timken has often sent men to British Timken to assist and instruct its engineers in

the design of new types of bearings such as industrial and railroad bearings (Moreland, R. 747-749); (Eastburg, R. 681-683). American Timken also assisted in organizing British Timken's bearing design department (Deft's. Exh. 154, R. 2128; offered, R. 664; Deft's. Exh. 155, R. 2129; offered, R. 665; Deft's. Exh. 156, R. 2130; offered, R. 665).

Installation and perpetuation of American Timken's methods of production at British Timken and French Timken has been, of course, one of the most important factors of the joint enterprise.

Hess, assistant to the President of American Timken, went to England as soon as British Timken had been acquired in order to help "in making tapered roller bearings like we made or as close to it as possible" (R. 317). His report on this trip (Deft's. Exh. 31, R. 1800; offered, R. 318) demonstrates the extensive study which he made and the tremendous amount of innovation which was necessary. His recommendations included purchase of some parts from American Timken, purchases of new machinery, and passing of the 1927 British Timken dividend called for in the agreements between American Timken and Dewar in order to enable the purchase of the machinery (R. 1825-1827).

Thereafter, employees of American Timken, expert on various processes, went to the British and French Timken plants almost every year, except the war years 1939 to 1945 (R. 525, 526), as needed, to introduce and maintain American Timken's methods. The testimony and reports of several of these men demonstrate the great amount of work done in this respect. See evidence of Sloan (R. 718-726; Deft's. Exh. 167, R. 2158; offered, R. 720; Deft's. Exh. 168, R. 2172; offered, R. 724), Shuler (R. 726-735; Deft's. Exh. 169, R. 2185; offered, R. 729), Nauman (R. 735-742) and Travis (R. 742-746). American Timken even procured a man from another company to go to British Timken and give it technical information as to forging practices which the former did not, itself, use (R. 431, 432-433).

Conversely, the record discloses that at least nine employees of British Timken (R. 670; 688; 699; 714-716) and two from French Timken (R. 670; 688; 715) have come to American Timken's plant for instruction and training.

New methods, designs, bearings, materials, machine tools and tooling which are worked out in American Timken's extensive research department, to which only ten of its employees are admitted without pass (R. 706), are sent to British Timken "more or less as a matter of routine" (R. 703). This research department is five times as large as British Timken's (R. 278) and the latter has benefited greatly from periodic visits of its officials thereto for the purpose of studying American Timken's methods (R. 277, 278). American Timken has also assisted British Timken and French Timken in the acquisition of new machine tools and equipment at no profit to itself (R. 704, 705; 916, 917). Defendant's Exhibits 162 (R. 2131; offered, R. 706), 162-A (R. 2134; offered, R. 706), and 162-B (R. 2135; offered, R. 706), are lists of such equipment purchased since 1928.

One of the most significant facts indicating the existence of a joint enterprise is the elaborate system set up by American Timken in 1927 for comparison of British Timken and French Timken costs with its own (R. 357-359). British Timken and French Timken both submitted very detailed data as to their costs for the purpose of this comparison. The number and details of these reports are shown in Defendant's Exhibit 113 (R. 2025; offered, R. 637) and in Defendant's Exhibit 141 (R. 2104; offered, R. 659), a memorandum specifying the data received from 1928 up to the time Hess left the company in 1936 (R. 659). Sample reports of various kinds from British Timken[24]

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[24] Deft's. Exh. 109, R. 2016; offered, R. 636; Deft's. Exh. 110, R. 2019; offered, R. 636; Deft's. Exh. 111, R. 2019; offered, R. 636; Deft's. Exh. 112, R. 2020; offered, R. 637; Deft's. Exh. 120, R. 2041; offered, R. 643; Deft's. Exh. 121, R. 2048; offered, R. 644; Deft's. Exh. 122, R. 2049; offered, R. 645; Deft's. Exh. 123, R. 2050; offered, R. 645; Deft's. Exh. 124, R. 2051; offered, R. 645; Deft's. Exh. 125, R. 2051; offered R. 646.

and French Timken[25] to American Timken, and correspondence demonstrating American Timken's insistence on them appear in the record. Costs of British Timken and French Timken were compared with those at American Timken's Canton and Columbus plants in percentages of a standard cost, or par value, of 100% (R. 638, 639; Deft's. Exh. 114, R. 2030; offered, R. 638; R. 2031; Deft's. Exh. 145, R. 2109; offered, R. 660; R. 2110). Defendant's Exhibits 115 (R. 2034; offered, R. 640), 116 (R. 2034; offered, R. 640), 117 (R. 2036; offered, R. 641), 118 (R. 2038; offered, R. 642), and 119 (R. 2039; offered, R. 643) are correspondence demonstrating how these cost comparisons were used to pick out expensive points in the foreign Timken companies' cost structures, and to cure them by sending American Timken's employees to cut costs by improving methods of production.

With respect to sales and advertising, American Timken has sent its employees to British Timken and French Timken to assist them in selling bearing applications (Moreland, R. 747, 748; 751, 752; 755, 756; Eastburg, R. 683-686), and has furnished them with copies of engineering journals and periodic additions thereto (R. 716, 717).

American Timken also supplies British Timken and French Timken with copies of its three mediums of advertising (Deft's. Exh. 188, R. 2302; offered, R. 918) as soon as they are prepared (R. 917, 918).

Thus it can be seen that American Timken has assisted British Timken and French Timken in every way possible in the production and sale of bearings, pursuant to the

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[25] Deft's. Exh. 136, R. 2094; offered, R. 656; Deft's. Exh. 137, R. 2094; offered, R. 657; Deft's. Exh. 138, R. 2095; offered, R. 658; Deft's. Exh. 139, R. 2095; offered, R. 658; Deft's. Exh. 140, R. 2097; offered, R. 658; Deft's. Exh. 142, R. 2106; offered, R. 660; Deft's. Exh. 143, R. 2107; offered, R. 660; Deft's. Exh. 144, R. 2108; offered, R. 660; Deft's. Exh. 145, R. 2109; offered, R. 660; Deft's. Exh. 146, R. 2111; offered, R. 661; Deft's. Exh. 147, R. 2119; offered, R. 662; Deft's. Exh. 148, R. 2120; offered, R. 662; Deft's. Exh. 149, R. 2123; offered, R. 663; Deft's. Exh. 150, R. 2124; offered, R. 663.

basic plan for licensing the trade-mark "Timken" and for the integrated sale of tapered roller bearings by those companies throughout the world thereunder.

Other facts relating to the case are discussed under Section III, *infra*.

SPECIFICATION OF ERRORS TO BE URGED.

American Timken specifies as errors to be urged each of the errors assigned (R. 1257-1315) as summarized in points numbers 1, 2, 4, 5, 7, 8 and 9 of its Statement of Points to be Relied Upon (R. 1327-1332), except those specified by assignments of error numbers 8 and 200-203, inclusive.

SUMMARY OF ARGUMENT.

I.

In 1927, pursuant to a plan agreed upon with a British business man, M. B. U. Dewar, in Heads of Agreement entered into between them, American Timken, a manufacturer of tapered roller bearings in the United States, joined with Dewar in the purchase of a small British company, British Timken, Limited, for the sum of £100,000, or approximately $500,000. Of this price American Timken paid 52½% and Dewar paid 47½%. Prior to the date of the purchase the English company had been a patent and trade-mark licensee of American Timken, and was manufacturing tapered roller bearings. Although subsequently some of the stock was sold to the public, at all times since that date control of this company has been maintained by American Timken and Dewar by contract between them until the latter's death in December, 1950.

Pursuant to the plan, a new company, French Timken, was organized by American Timken and Dewar in 1928, and it acquired the French trademark "Timken." The plant was acquired and equipped, 70% of the cost being supplied by American Timken and 30% by Dewar. Later Dewar's interest was increased to 50% and American Tim-

ken's interest was decreased to 50%, but there have been no other owners of the company since its organization until Dewar's death in December, 1950.

Also pursuant to the plan, a controlling interest in German Timken was acquired at the same time by a joint capital contribution of American Timken and Dewar and the German "Timken" trademark registration was acquired by it. This company was dissolved in 1934 when the Hitler regime came into power in Germany.

Pursuant to the plan, agreements were entered into between American Timken and Dewar providing for the management and operation of these companies by Dewar. The agreements also defined their rights as against each other, and preserved the closely knit character of the enterprise as between them. The relationship between American Timken and Dewar was always regarded by, and referred to by, them from the beginning as a "partnership," and their agreements, supplemented by the corporate set-ups of its instrumentalities, created a joint adventure between American Timken and Dewar to manufacture and sell tapered roller bearings under the trademark "Timken" in foreign countries through the three instrumentalities, British Timken, French Timken and German Timken. This joint adventure was strikingly similar to the arrangement held by this Court to constitute a practical joint adventure in *United States v. Scophony Company of America,* 333 U. S. 795.

Whatever restraints were contained in the agreements between the parties were reasonably ancillary to a valid main purpose, namely, the creation and conduct of the joint adventure, and they are not, therefore, unreasonable. This Court so held in *United States v. Bausch & Lomb Optical Co.,* 321 U. S. 707, with respect to the agreement of a manufacturer not to compete with its customer and distributor in the distribution of the product manufactured for the customer. In such a case the restrictions imposed are clearly analogous to those resulting from the agreement of

a partner not to compete with the partnership, which has always been regarded as creating a reasonably ancillary restraint of trade.

It was, of course, reasonable and proper that the territories in which British Timken and French Timken would operate should be described in the agreements between American Timken and Dewar, and it is the contention of American Timken that such agreements spelling out the areas of operation were also reasonably ancillary to the creation of the joint adventure.

The imposition of these restrictions, under the circumstances, did not unduly prejudice the public interest, because the combination of the operations of these three companies pursuant to the joint adventure did not tend to monopolize trade in anti-friction bearings in the markets in which they compete.

Therefore, no violation of Sections 1 and 3 of the Sherman Act was shown justifying the rendition of any judgment by the district court against American Timken, and the death of Dewar subsequent thereto, even though it terminated the joint adventure, should not prevent the culmination of the agreement between him and American Timken by which the latter has the option to convert British Timken and French Timken into its majority-owned and wholly-owned subsidiaries, respectively, pursuant to its options on Dewar's stock therein at his death, which it has exercised.

II.

Reference has been made to the fact that prior to its acquisition in 1927 by American Timken and Dewar, British Timken had been a patent and trademark licensee of American Timken. When the first license agreements were made between American Timken and E. & O. A., a predecessor of British Timken, in 1909, the former projected its good will into the British and European markets by requiring the

use of the name "Timken" by E. & O. A. in connection with the manufacture and sale of bearings by that company. An amendment of the 1909 license agreements was negotiated with British Timken in 1925, the effect of which was explicit recognition by British Timken of its position as a licensee of the name "Timken" during the term of the license.

By 1928 American Timken was the registered owner of the trademark "Timken" in all of continental Europe except Germany and France, such registrations having been obtained shortly after 1920 when, for the first time, American Timken was able to obtain registration in the United States of this surname as its trademark and used such American registration as the basis of obtaining registrations abroad.

In England American Timken was the equitable owner of the trade-mark, and at the time French Timken and German Timken obtained the registrations of trademarks in those two countries, pursuant to the Heads of Agreement of 1927 between American Timken and Dewar, the former was the equitable owner and licensor of the mark to those two companies by reason of the agreements therein contained and the subsequent investment of its funds in those two companies jointly with Dewar based upon the understanding that it was to be the owner and licensor of the mark to them.

The fact that American Timken had not obtained registration of the trademark in certain countries is unimportant because registration is not the sole test of ownership of a trademark.

In all the negotiations with Dewar for the purchase of British Timken and the organization of French Timken and German Timken, Dewar recognized that American Timken was the owner of the trademark. Beginning in 1928 and continuing with the business agreements of 1935 and 1938, American Timken has validly licensed the use of the trademark by controlled licensing thereof to British Timken and

French Timken. The Lanham Act evidences the policy of this country in favor of controlled licensing of trademarks under conditions which will prevent deception of the public as to the quality of the goods produced under the license. This is also international policy, fostered by the United States and evidenced by the Conventions between various governments, including the United States, which permit controlled licensing thereof. The uncontroverted evidence discloses that American Timken, pursuant to the policy by which tapered roller bearings manufactured by the three Timken companies are interchangeable and of the same quality, has at all times insured that the principles of controlled licensing of the trademark to British Timken and French Timken shall be carried out.

The territorial provisions of the business agreements in connection with the licensing of the trademark by American Timken to British Timken and French Timken are not violative of the Sherman Act, but instead, just as in the case of a patent license, are reasonably ancillary to the main transaction by which the trademark is licensed as held in the only decision on this point, *The Coca-Cola Bottling Co. v. The Coca-Cola Co.*, 269 Fed. 796.

III.

The purported findings of fact upon which the district court based its judgment are clearly erroneous.

(1) The district court's conclusions that American Timken divided up world markets commencing in 1909 when it licensed a subsidiary of Vickers, Ltd. to commence manufacturing tapered roller bearings and that thereafter it combined with potential or actual competitors, dominant in a mythical roller bearing industry, are contrary to the uncontroverted evidence in the record. In 1909 American Timken was a very small company commencing the manufacture of a new patented product which was not established in this country until the 1920s. The Vickers subsidiary, E. & O. A., had never previously manufactured

bearings. E. & O. A.'s successor by assignment of the 1909 license agreements, Wolseley Motors, another subsidiary of Vickers, was a motor car manufacturer, and British Timken, the wholly-owned subsidiary organized by Wolseley Motors in 1920 to take over the business, was not a potential or actual competitor of American Timken from that time until its acquisition by American Timken and Dewar, jointly, in 1927. It was continually in difficulty, appealing to American Timken for assistance, and, due to antiquated methods, lack of finances and other reasons did not develop the business satisfactorily in England.

SMG, British Timken's sublicensee under the 1909 license agreements until 1928, also was not an actual or potential competitor of American Timken, and its performance was unsatisfactory even to British Timken. The district court's finding that American Timken invested in and organized a potential competitor in France when French Timken was created jointly by it and Dewar in 1928, and necessarily commenced the manufacture of tapered roller bearings on a small scale backed by American Timken's funds, indicates the paucity of evidence upon which these findings that American Timken combined with dominant potential competitors are based.

On the contrary, the uncontroverted evidence discloses that the 1909 license agreements were not different from ordinary license agreements involving patents and trademarks, and that, due to the failure of the Vickers subsidiaries and SMG to develop the business properly, as well as trademark difficulties, American Timken had very good business reasons for taking over British Timken with Dewar and organizing a new French company, French Timken, to develop business on the continent, rather than that American Timken was attempting to bolster up a combination for the express purpose of suppressing competition in foreign trade in anti-friction bearings inaugurated by the 1909 license agreements.

(2) The district court's finding that American Timken had combined to suppress competition in the "tapered roller bearing industry" is clearly erroneous, because contrary to a great mass of uncontroverted evidence in the record which shows that the Timken companies compete in the anti-friction bearing industry with companies which, particularly in foreign markets, are much more powerful than are the Timken companies. Ball bearings were firmly entrenched, not only in this country but also in the British and European markets, long before tapered roller bearings were invented and tapered roller bearings compete with other styles of roller bearings, with ball bearings and with special types of anti-friction bearings in 90% of the instances in which competition exists, as well as with friction bearings on many types of business.

(3) The district court's decision was based essentially on an ultimate finding, unsupported by evidence and reached in disregard of uncontroverted evidence, which caused it to disregard entirely the uncontroverted evidence demonstrating that American Timken and Dewar had carried on a joint adventure from 1927 on, and that the licensing of the trademark in restricted territories was entirely proper. This finding was, in substance, that American Timken and the Vickers subsidiaries had divided up world markets and eliminated competition by reason of the 1909 license agreements, and that, after the basic British product patents covering tapered roller bearings had terminated in 1924, American Timken and British Timken, the Vickers subsidiary, nevertheless extended the 1909 license agreements, by amendments thereto in 1925, for an additional five-year period, with the result that the license agreements were no longer valid contracts "but were without pretense contracts for the *avowed* purpose of suppressing competition." The district court therefore found that the agreement made between American Timken and Dewar in 1927 merely *continued* this combination *for the specific*

purpose of suppressing competition and that the agreement between them, conceding for the sake of the argument that it was a valid joint adventure in form, was merely a "cloak" for this purpose.

This essential and basic finding, which swept away American Timken's defense in this respect, was clearly erroneous because the district court completely ignored uncontroverted evidence which showed that American Timken, in extending the 1909 license agreements, acted pursuant to advice of its trademark counsel that, even though the basic British bearing patents had ceased in 1924, nevertheless the agreements licensed use of the trademark "Timken" by American Timken to British Timken, which justified their continuance and the continued payment of royalty by the latter to the former. The one item of evidence relied upon by the district court as indicating an "avowed" purpose to suppress competition was a letter by American Timken's British solicitor to it (which of course was not binding upon it), which expressed the same point of view as that of its American trademark counsel.

Since the question of whether the license of a trademark is a valid basis for restrictive territorial provisions is still one which, as the district court stated, has not been decided by the courts, this evidence failed to disclose an intentional combination to restrain trade which would justify the conclusion that a joint adventure, otherwise valid, was merely a cloak for a combination in restraint of trade, and that, therefore the restraints imposed thereby, which would otherwise be ancillary to the creation of a lawful joint adventure, were unreasonable.

(4) The evidence relied upon by the district court as demonstrating conduct of an intentional restraint of trade by the three Timken companies from 1928 on is just as reconcilable with the conduct of a legal joint adventure as with the conduct of a combination for the pur-

pose of suppressing competition and controlling world trade in tapered roller bearings, and therefore the district court's decision to the contrary is clearly erroneous.

In view of all of the foregoing, it is clear that a mistake has been committed by the district court, in that, in basing its decision upon findings that there was an intentional combination in restraint of foreign trade, and, therefore, it should disregard much of the evidence introduced by American Timken, it overlooked and disregarded vital facts disclosed by the uncontroverted evidence.

IV.

The district court erred in not making proper findings of fact and conclusions of law as required by Rule of Federal Procedure 52, in that it adopted its memorandum as its findings and conclusions, with the result that there are not specific findings of all of the underlying and subsidiary facts which must be found to determine all of the issues which this case presents, the purported findings contain discussions of portions of the evidence and the court's reasoning, and statements of fact are mingled with reasoning and inferences, contrary to the intent of the rule as announced by the decisions of this Court. The district court's failure to make proper findings and conclusions as urged by American Timken has resulted in the necessity of the detailed discussion of the facts in this brief.

V.

The decree is erroneous and without precedent, exceeds the permissible limits of the discretion conferred upon the district court by Section 4 of the Sherman Act, and deprives American Timken of its property without due process of law in the following respects:

(1) In enjoining American Timken from assigning, licensing, receiving or transferring patents, know-how, material, machinery or trademark or name "in such a way as

to deny third persons access thereto," because it is not charged that the exclusive exchange of any of the above was an essential part of the violation found by the district court, and these provisions in effect confiscate American Timken's property without due process of law.

(2) In enjoining American Timken from refusing to sell bearings or to provide services with respect thereto, in certain territories, it interferes with the right of a company to decide where, on what terms and to what extent it will carry on its business, and to select its customers and manner of doing business, and, in effect, forces it to do business.

(3) In enjoining certain arrangements with respect to the trademark and name "Timken," it interferes with valuable rights of American Timken in the family name of its founder, under both United States and foreign law.

(4) In ordering American Timken to divest itself of its stock interests in British and French Timken, and enjoining further acquisitions thereof, it achieves no remedial purpose under the Sherman Act, but imposes a penalty and severe hardship under circumstances without precedent in the field of anti-trust law, and will prevent American Timken and its customers from competing effectually in foreign markets by depriving the former of control of its trademark "Timken."

ARGUMENT.

I.

ANY RESTRICTIVE PROVISIONS IN THE BUSINESS AGREEMENTS BETWEEN AMERICAN TIMKEN, BRITISH TIMKEN AND FRENCH TIMKEN ARE REASONABLE AND PROPER PARTS OF THE JOINT ADVENTURE BETWEEN AMERICAN TIMKEN AND DEWAR WHICH ORIGINATED IN THE HEADS OF AGREEMENT OF MAY 16, 1927.

The facts stated demonstrate that American Timken and Dewar acted throughout from 1927, and thereafter, contemporaneously intending and considering that they were to be "partners," pursuant to a definite agreement and program, defined in the Heads of Agreement of May 16, 1927, from which they never departed.

Pursuant to this program, they jointly acquired British Timken and German Timken, and organized French Timken, and maintained, by means of agreements and provisions in the corporate articles and by-laws of these instrumentalities by which the joint venture was conducted, an elaborate system of control both as against outsiders and between themselves, with provision for turning the joint venture over to either partner in the event the other should desire to withdraw, and to American Timken in the event of Dewar's decease by means of the options provided for in their agreements.

As will be seen, it is not necessary that this joint enterprise should have constituted what is known as a "joint adventure" in a technical legal sense in order to decide the question of whether any restraints of foreign commerce imposed by its operation violated the Sherman Act. In fact, while no general partnership was created, because the relation was limited to business to be conducted in the territories assigned to the European Timken companies, it contained the elements of a limited partnership or joint venture with respect to a particular line of business. See

Kasishke, et al. v. Baker, 146 Fed. (2d) 113 (CCA 10, 1948), in which the court held on facts quite similar to those involved here that a joint venture was created.

The fact that American Timken and Dewar understood that they were to be "partners" when the latter communicated this desire to American Timken, during their negotiation of the joint enterprise in 1927 supported by their subsequent contemporaneous characterizations of their relations as such in 1929 and 1936,[26] establishes that such was

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[26] The district court referred to only two items of evidence as rebutting these clear indications of the nature of the relation intended to be created, both of which are reconcilable with the partnership theory.

In Plaintiff's Exhibit 175 (R. 1687; offered, R. 950) Hess, paving the way for the rearrangement of the joint adventure upon sale of stock of British Timken to the public, stated that the partners were arranging a new 15 year deal, and that "In the so-called 'New Deal' we feel and hope that our past pleasant cordial relationship will continue, but at the same time it is the writer's opinion that we now have to consider that 50% of British Timken stock will be in the hands of the public" so that arrangements which might have been covered previously by "a simple letter" between the partners should be covered completely by formal agreements, because "*should you in the future wish to retire* from active participation in British Timken, *we might be very unwilling,* as far as American Timken is concerned *to continue the same relationship with some future partner as in the past*" (R. 1689). Dewar replied (Pltf's. Exh. 176, R. 1691; offered, R. 950) that he had no "thought of retiring from active business," but that, either his "interest would remain in my family" so that "there would be some other Dewar" and that with this thought in mind he had procured Pascoe "*in order to preserve continuity of management and association* with yourselves," or that American Timken would purchase his interest in British Timken upon his decease in which event American Timken would own "the controlling interest in British Timken" and appoint its own management.

This correspondence merely indicates the desire of American Timken to make provision for the situation which would occur *when the partnership with Dewar should end* by his decease. The district court quoted part of this letter (Mem. par. 157, R. 1004, 1005).

The district court also stated (Mem. par. 158, R. 1005), that in 1948 Dewar "proclaimed: 'Me' is British Timken." The com-

(Continued on following page)

the relation which the parties intended to, and did, create. As the court said in *Reid v. Shaffer*, 249 Fed. 553 (CCA 6, 1918), in which a joint venture was found to exist, "the relation of the parties to each other is determined by their intention" (p. 560). Thus, in *First Mechanics Bank v. Commissioner of Internal Revenue*, 91 Fed. (2d) 275 (CCA 3, 1937) the court, finding the existence of a joint venture, referred to evidence that the president of the corporate venturer had addressed the individual venturer "as a 'partner with us'" in their correspondence (p. 278), and, in summarizing facts showing "that the relationship of joint venture was intended and created by the parties" (p. 279), included such evidence of intention.

The district court's reference to the repeated characterization of the joint enterprise as such by American Timken's witnesses at the trial (Mem. par. 151, R. 1003) including statements by such as Hess (R. 317; 371), who was no longer employed by American Timken and had no personal interest in the outcome of the case, contained no mention of the above *contemporaneous* references to the relationship made at a time when there was no possible ulterior purpose to be served thereby.

The relation between American Timken and Dewar

(Continued from preceding page)

plete lack of probative value of this statement, removed from its context, appears as follows in his testimony as part of the *defendant's* case:

"Q. What would you say, occupying the position which you have with British Timken and being an engineer yourself, as to the value of the cooperation that British Timken get from American Timken along the lines suggested by that paragraph in the contract and of your own knowledge?

A. It is difficult to conceive that we could have started without that.

Q. And if it did assist you in starting, as you have just suggested, state whether or not it has been of great value, or not to you throughout the years? *By 'to you' I mean 'to British Timken.'*

A. *'Me' is British Timken.* It has been of very great advantage."

is strikingly similar to that involved in *United States v. Scophony Corporation of America*, 333 U. S. 795. In that case Scophony, Ltd., a British corporation, undertook to introduce its patented product into this country. To that end, it organized Scophony Corporation of America jointly with American motion picture and television interests, setting up a system of control through class A shares owned by the British company and class B shares owned by the American interests, accompanied by agreements for exclusive licensing of patents by the British company to the American company, hemispheric division of territories between them and the interchange of technical information. With respect to this complicated arrangement, this Court said (p. 811):

> "First was the phase of attempting to set up in this country as manufacturer and seller of television equipment. When that failed, the company turned to licensing and exploiting its patents by other means. *This was done through the complicated arrangements for what practically if not also technically was a joint adventure with other companies.* That project was carried out not merely through corporate forms and arrangements but by contracts binding the participating companies to the common enterprise, as well as the special medium of executing it, American Scophony. In this each corporate participant had its special functions, controls and restrictions created in part by share ownership in American Scophony, but also in important respects by contract both beyond the stock controls and dictating their character."

The arrangements, very similar to those made in the case at bar, are described in more detail in note 22 of the opinion in that case (p. 811). On the basis of the existence of such a practical joint adventure, this Court held that, because Scophony, Ltd. was engaged therein, it was "transacting business" and was "found" in this country for the purpose of service of process upon two of its directors located here. The contention of the British company that it merely held

an investment in Scophony Corporation of America, and therefore was not "found" in this country, was denied.

We are aware of the fact that this Court has said in such cases as *United States v. Yellow Cab Company*, 332 U. S. 218, that common ownership and control of various corporations are impotent to liberate a combination in restraint of trade from the impact of the Sherman Act, because an unreasonable restraint may result as readily from a conspiracy among those affiliated or integrated under common ownership as from one among those otherwise independent (p. 227).

However, if a particular relation, involving something more than mere joint ownership of corporations, is to be regarded as a joint adventure for one purpose, as it was in *United States v. Scophony Corporation of America*, 333 U. S. 795, *supra*, then certainly it should be so considered for all purposes, including that disclosed in the case at bar.

That a restraint of trade must be unreasonable in order to violate the Sherman Act, *Standard Oil Company v. United States*, 221 U. S. 1, is, of course, axiomatic. A restraint may be unreasonable either because (1), although otherwise reasonable, it is accompanied by a specific intent to accomplish a forbidden restraint; or (2) because it falls within that class which are unreasonable *per se*, such as price fixing or concerted refusal to deal; or (3) for the reason that, regardless of specific intent, it creates unreasonable power over the particular market involved, with resultant unreasonable lessening of competition therein, and, therefore, prejudices "the public interests by unduly restricting competition or unduly obstructing the course of trade,"[27] *United States v. Paramount Pictures, Inc.*, 334 U. S. 131, 173-174, and *United States v. Columbia Steel Company*, 334 U. S. 495, 522.

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[27] *Nash v. United States*, 229 U. S. 373, 376; *Thomson v. Cayser*, 243 U. S. 66, 84; *Appalachian Coals, Inc. v. United States*, 288 U. S. 344, 360; *Sugar Institute, Inc. v. United States*, 297 U. S. 553, 597; *Apex Hosiery Co. v. Leader*, 310 U. S. 469, 501.

The question here presented is whether any restraints arising from the creation and operation of the joint adventure in the case at bar have been unreasonable for any of these three reasons. The question of whether there was a specific intent to accomplish the forbidden restraint of stifling competition will be discussed in Section III, *infra*.

The fundamental question otherwise involved on this point is whether it is unreasonable for two parties to a joint adventure, American Timken and Dewar, to arrange for the areas in which the business operations of the companies involved were to be conducted. The territorial provisions of the business agreements were not for all purposes exclusive. The provisions of the 1938 business agreement are typical of those which appeared in all of the earlier contracts. Paragraph 6A and B thereof, provides in material part as follows (Deft's. Exh. 27, R. 1771; offered, R. 291; R. 1776):

"6. Each of the Companies parties hereto as a covenantor Company hereby covenants with each of the other Companies parties hereto as a covenantee Company that during the life of this Agreement the covenantor Company will not directly or indirectly make or sell or authorize others to make or sell bearings in the territory of the covenantee Company or in the territory of the covenantor Company knowing them to be for shipment into the territory of the covenantee Company save and except as follows to-wit:

"(A) The covenantor Company may make or sell or authorize others to make or sell in its territory bearings for delivery or shipment into the territory of the covenantee Company as assembled component parts of completed articles of manufacture manufactured in the territory of the covenantor Company or as assembled component parts of completed units of manufacture manufactured in the territory of the covenantor Company for incorporation into such completed articles of manufacture.

"(B) The covenantor Company in its territory may accept and execute orders for bearings for ulti-

mate destination in the territory of the covenantee Company for use for bearing replacement purposes in such completed articles of manufacture but such right shall not authorize sales to or known to be destined for manufacturers in the territory of the covenantee Company or sales at prices in conflict with the wishes of the covenantee Company and the covenantor Company from time to time will notify the covenantee Company of the details of the sales authorized under this paragraph and will pay to the covenantee Company an amount equal to five per centum of the net sale price received under any sales so authorized not being sales made through or at the request of the covenantee Company."

It is clear from this language that an American manufacturer of equipment (automobiles, trucks, etc.) whose equipment contained bearings manufactured in the United States could not be prevented by the agreements from selling either the completed product or component parts thereof in the territory in which manufacturing operations were conducted by the other parties to the agreement. It is equally clear that bearings as spare parts for such equipment could be supplied by such a manufacturer. It will be noted, of course, that the agreement stated that the prices at which such replacement bearings were to be supplied would be agreeable to the party in whose territory the bearings were being sold, but the record is clear that this provision of the contract has never been followed by the parties since the first agreement was made in 1928 (R. 896). In only one segment of the bearing business were the parties excluded from sales in the territory assigned to the other parties to the agreement, sales of bearings for original installation in equipment manufactured in such areas. The only other reference to prices in the agreements was in respect of sales to Russia, in the 1938 agreements, and the record is clear that at no time has this provision ever been invoked by the parties under the contract (R. 898, 899). There was no attempt made in the

agreements by American Timken to establish prices for the sale of bearings by British Timken or French Timken, nor did the agreements contemplate that either British Timken or French Timken would participate in the establishment of prices by American Timken.

Thus, the question of reasonableness becomes immediately apparent—whether a contract containing the provisions just outlined can lawfully be made a part of a joint adventure for the ownership and operation of foreign businesses. Exclusive cross licensing of patents and exchange of future know-how and inventions, patented or unpatented, were, of course, incidental to the creation of the joint adventure.

This Court resolved this question in *United States v. Bausch & Lomb Optical Company*, 321 U. S. 707, in which it held that the elimination of competition between parties to a joint adventure does not constitute an unreasonable restraint *per se* and does not violate the Sherman Act, if the result is not to prejudice the public interest by unduly restricting competition or obstructing the course of trade.

The statement of the facts in this Court's opinion discloses that Soft-Lite Lens Company, Inc., the sole distributor of pink tinted lenses under the trade name "Soft-Lite," limited itself to the distribution of lenses, and entered into an arrangement with the Bausch & Lomb Optical Company, a manufacturer of optical glass, by which the latter manufactured the glass and ground the lenses for the former. The parties agreed to an exclusive arrangement by which Soft-Lite purchased exclusively from Bausch & Lomb and the latter agreed not to sell its pink tinted glass to lens manufacturers, *or pink tinted lenses to the optical trade,* and that any orders therefor which it might receive would be transmitted to Soft-Lite (p. 711). Moreover, the parties cooperated in other ways, such as price fixing on adjuncts for trade distribution, such as cleaning cloths; an agreement by Bausch & Lomb to sell second quality lenses only in foreign

countries where Soft-Lite had no offices and at prices acceptable to both parties; and discussion of prices to wholesalers to which Soft-Lite sold, some of which were subsidiaries which had been acquired by Bausch & Lomb (pp. 711-714).

Although the district court, in *United States v. Bausch & Lomb Optical Company,* 45 Fed. Supp. 387 (D. C. S. D. N. Y. 1942), found that Soft-Lite had violated the Sherman Act by controlling resale prices of its wholesalers and retailers, it absolved Bausch & Lomb from any guilt in connection with its restrictive arrangement with Soft-Lite. The Government's appeal on this branch of the case, in which it urged that the "agreement of Bausch & Lomb not to sell pink tinted glass or lenses to any competitor of Soft-Lite, *and not to compete with Soft-Lite in the marketing of any pink tinted lens* unreasonably" restrained "commerce in violation of the Sherman Act" (pp. 718, 719), was denied by this Court, it being "equally divided upon the issue raised" thereby (p. 719).

The basis of the district court's decision was that the restrictive agreement was reasonably ancillary to a joint enterprise analogous to a partnership as well as a bargain for exclusive dealing and, since it did not unreasonably interfere with competition in the industry, was not violative of the Sherman Act. The district court said (45 Fed. Supp. 387, 398):

> "In a lay sense, the withdrawal of Bausch & Lomb from competition with Soft-Lite in the distribution of pink tinted lenses, and its refusal to sell pink tinted glass to competitors of Soft-Lite pursuant to arrangement, is a restraint of trade."

The court then referred to the rule of reason, stating that the "classic opinion" in *United States v. Addyston Pipe & Steel Company,* 85 Fed. 271 (CCA 6, 1898), aff'd. 175 U. S. 211, set forth standards for determining whether a restraint is unreasonable substantially similar to those

contained in the *Restatement of the Law of Contracts*, §§ 515 and 516; quoted § 516;[28] pointed out that in the *Addyston Pipe* case the court had specified that a reasonable restraint is such only as affords a fair protection to the interests of the party in favor of whom it is given and is not so large as to interfere with the interests of the public, and that the contract must be one in which there is a lawful main purpose, to which the covenant in restraint of trade is merely ancillary; and then said (p. 398):

> "In the case at bar the main purpose of the contract is to provide a source of supply for Soft-Lite. The restraining covenant is for the protection of the purchaser who is spending large sums to develop his good will and enlarge the public patronage of a relatively new article of commerce. *The arrangement, though not a partnership in legal form, is functionally a joint enterprise* in which one will produce and the other market the commodity. United States v. Addyston Pipe & Steel Co., supra, 85 F. at page 281.

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[28] "'§ 516. *Instances of Reasonable Restraints.*

"'The following bargains do not impose unreasonable restraint of trade unless effecting, or forming part of a plan to effect, a monopoly:

"'(a) A bargain by the transferor of property or of a business not to compete with the buyer in such a way as to injure the value of the property or the business sold;

"'(b) A bargain by the buyer or lessee of property or of a business not to use it in competition with or to the injury of the seller or lessor;

"'(c) A bargain to enter into partnership with an actual or possible competitor;

"'(d) *A bargain by a partner not to interfere by competition or otherwise with the business of the partnership while it continues*, or subject to reasonable limitations after his retirement;

"'(e) A bargain to deal exclusively with another;

"'(f) A bargain by an assistant, servant, or agent not to compete with his employer, or principal, during the term of the employment or agency, or thereafter, within such territory and during such time as may be reasonably necessary for the protection of the employer or principal, without imposing undue hardship on the employee or agent.'"

"It is clearly a 'bargain to deal exclusively with another,' Restatement, supra, § 516.

"It is not necessary to find and I do not find that Soft-Lite's specifications for the glass constituted a secret formula for the protection of which a restraining covenant would be proper. There is nothing contrary to public policy in the arrangement. Nothing in the evidence indicates that Bausch & Lomb enjoyed a monopoly in the manufacture of glass for lenses, whether pink or otherwise. On the contrary, the evidence is clear that other manufacturers of lenses have had access to pink glass from other sources and that the success of Soft-Lite has stimulated emulation and competition. See Federal Trade Commission v. Raymond Bros.-Clark Co., 1924, 263 U. S. 565, 44 S. Ct. 162, 68 L. Ed. 448, 30 A. L. R. 114.

"I conclude that the exclusive arrangement between Bausch & Lomb and Soft-Lite taken independently of the distribution system is not violative of the Sherman Act."

The only bargain for exclusive dealing in the foregoing case was that for the mutually exclusive sale and purchase of pink tinted glass and lenses. Therefore, the basic justification for Bausch & Lomb's agreement not to compete with Soft-Lite in the marketing of pink tinted lenses must have been the fact that the arrangement, "though not a partnership in legal form," was "functionally a joint enterprise," and the court necessarily held that the agreement by Bausch & Lomb not to compete with the enterprise was reasonably ancillary to the arrangement between the parties for the same reason as would be a bargain by a partner not to interfere by competition with the business of the partnership.

The doctrine of this case is similar to that applied in *Kinsman v. Parkhurst*, 18 Howard (U. S.) 289, in which a covenant by a part owner of a patent to form a partnership for the manufacture and sale of a patented product by only one of the partners, and the discontinuance there-

of on his own account was held legal at common law; *Morse Twist Drill & Machine Company v. Morse*, 103 Mass. 73, 75, in which a covenant of one organizer of a corporation which purchased his business and patents not to compete therewith was held valid; and *Anchor Electric Company v. Hawkes*, 171 Mass. 101, in which the partnership principle was also applied by analogy in the case of a corporation.

The relation between the parties in the *Bausch & Lomb* case was much less similar to a partnership or joint venture than was that between American Timken and Dewar here, because he and American Timken invested their funds in the instrumentalities of the enterprise, British and French Timken, whereas there was no such close relation between Bausch & Lomb and Soft-Lite, and here the control provisions have operated just as they would in a partnership or joint adventure whereas in the *Bausch & Lomb* case there was no such close integration between the parties.

Obviously, the arrangement between Bausch & Lomb and Soft-Lite effectively prevented that competition between them on the basis of independent price fixing, which is the ultimate core of competition, *United States v. Socony Vacuum Oil Company*, 310 U. S. 150, 226, note 59, citing *Handler, Federal Antitrust Laws—a Symposium* (1931) pp. 91, *et seq.*, just as effectively as though the parties had agreed upon exclusive territories for the distribution of pink tinted lenses or upon prices thereof.

Where there is a valid main purpose to which the restraint is ancillary, and neither a monopolistic purpose nor effect, exclusive allocation of territory is not illegal *per se*. This, and other courts, have so held as a matter of common law (which is the basis of the Sherman Act, *Apex Hosiery Company v. Leader*, 310 U. S. 469, 498), *Fowle v. Park*, 131 U. S. 88, 97, and, under the Sherman Act, *Thoms v. Sutherland*, 52 Fed. (2d) 592; *Kentucky Natural Gas Corporation v. Indiana Gas & Chemical Corporation*, 118 Fed. (2d) 831;

Cole Motor Car Company v. Hurst, 228 Fed. 280, cert. den. 247 U. S. 511. The situation is the same as that relating to price fixing, as to which it is well settled that an agreement, the only purpose of which is to fix prices, is illegal *per se*, *United States v. Socony Vacuum Oil Company*, 310 U. S. 150, *supra*, but that an agreement providing for fixing prices ancillary to a legal main transaction, such as the granting of a patent license, is not. *United States v. General Electric Company*, 272 U. S. 476, adhered to on this point, *United States v. Line Material Company*, 333 U. S. 287, and *United States v. United States Gypsum Company*, 333 U. S. 364.[29]

Thus, it is clear that parties to a joint adventure in the nature of a partnership, even though it involves corporations as its instrumentalities, as in *United States v. Scophony Corporation of America*, 333 U. S. 795, and *United States v. Bausch & Lomb Optical Company*, 321 U. S. 707, *supra*,[30] may properly covenant not to compete with it during the period of its operation. This justifies the covenant of American Timken not to compete with the European Timken companies by selling bearings in the latters' territories.

It is just as clear that the agreements by each of the European Timken companies not to compete with American Timken, one of the joint adventurers, in its territory, provided for reasonable restraints ancillary to the joint adventure. Otherwise, American Timken would have been using not only the money which it invested in the enterprise, but also its know-how and such patents as it might have, to

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[29] See *Packet Co. v. Bay*, 200 U. S. 179, in which the restraints contained in a patent license agreement, *Bement Co. v. National Harrow Co.*, 186 U. S. 70, were likened to a covenant against engaging in business by the seller ancillary to sale of a business (p. 185).

[30] The district court, although these two controlling decisions were called to its attention, made no reference thereto in its memorandum, possibly for reasons discussed in Section III, *infra*.

create competition for itself. Therefore, the agreement was similar in principle to a bargain by the buyer of property not to use it in competition with the seller, or that of a servant or agent not to compete with his employer or principal during the term of the employment or agency or thereafter, which are long recognized forms of valid ancillary restraints, *Restatement of the Law of Contracts*, § 516, subparagraphs (b) and (f), *supra* note 28, justifiable because they secure the seller or employer "against an increase of competition of his own creating," *United States v. Addyston Pipe & Steel Company*, 85 Fed. 271, 281.

The extension of the 1928 business agreements for five years from 1929 merely continued the term of the joint enterprise and obviously was intended to protect Dewar during the time that he was obligating his interest in British Timken to reimburse American Timken for making advances to keep him as an "equal partner" therein. Assistance from American Timken and absence of its competition with British Timken and French Timken for this additional period insured British Timken's making the profits out of which Dewar's obligation was to be paid. American Timken was entitled to the continuing protection of the covenants in its favor for reasons previously stated.

The sale of stock of British Timken to the public in 1935 and the extension of the period of the joint venture in connection therewith for thirty years, did not change the situation. Plaintiff's Exhibit 175, *supra*, note 26, shows that American Timken was willing to continue with Dewar as its partner for an additional period of time, but desired that the agreements between the Timken companies should cover every contingency because of the possibility of Dewar's decease. The subsequent correspondence of the parties in 1936 shows that they regarded the "partnership" between them as continuing after this re-arrangement of their affairs was made.

Obviously, agreements between corporations ordinarily are not made to terminate upon the death or with-

drawal of an individual and, therefore, the business agreements were made to extend to a certain date, 1965. It was anticipated that the venture would terminate, in the event of Dewar's death, by American Timken's taking over the control and management of British and French Timken, in which event it was quite obvious that the restrictive provisions would become meaningless, even if not done away with, because it was not to be expected that American Timken would compete with its own majority-owned subsidiaries, or vice versa, in the respective territories which they had previously served, for the same reasons that "a subsidiary will in all probability deal only with its parent for goods the parent can furnish," *United States v. Columbia Steel Company*, 334 U. S. 495, 523.

However, the insistence of the English brokers who marketed the British Timken stock on a long term agreement constituted another altogether independent justification for continuance of the restrictive covenants, because they were reasonably ancillary to the sale of the stock by protecting the purchasers thereof in the enjoyment of their property. This type of restraint is similar to that of the seller of a business who makes such a covenant to protect his purchaser. See *S. Jarvis Adams Company v. Knapp*, 121 Fed. 34 (C. C. A. 6, 1903); *Knapp v. S. Jarvis Adams Company*, 135 Fed. 1008 (C. C. A. 6, 1905), *National Enameling & Stamping Co. v. Haberman*, 120 Fed. 415 (C. C. Conn. 1903), *Peterson v. Johnson Nut Company*, 204 Minn. 300, 283 N. W. 561 (1939); *Diamond Match Company v. Roeber*, 106 N. Y. 473, 13 N. E. 419 (1887); and *Connors Bros. Ltd. v. Connors* (1940), 4 All Eng. Rep. 179 (Privy Council). On the other hand, American Timken in agreeing to sell part of its stock and at the same time to extend the period of the business agreements pursuant to which it was required to assist British and French Timken, was entitled to a continuance of protection against competition of its own making. *Thoms v. Sutherland*, 52 F. 2d 592 (C. C. A. 3, 1931); *Alden v. Wright*, 175 App. Div. 692, 162 N. Y.

Supp. 668 (App. Div., 1st Dept. 1916), *Wilgus v. Indian Lake Amusement Company*, 37 N. E. (2d) 210 (Oh. App., 1941), and *Fishman v. Fishman*, 137 N. J. Eq. 151, 43 Atl. (2d) 837 (N. J. Ch. 1945) aff'd. per curiam, 137 N. J. Eq. 454, 45 Atl. (2d) 325 (N. J., 1946).

Certainly, it cannot be contended that the maintenance of this joint venture has had the effect of prejudicing the public interest by unduly restricting competition or obstructing the course of trade.

The Timken companies compete with others in the anti-friction bearing industry, and it is obvious from the previous discussion that they have been subjected to most strenuous competition, even with respect to tapered roller bearings alone since the patents have expired, and are being subjected to increasingly stronger competition, by such companies as Bower in this country and SKF in foreign markets.

American Timken's 25% production of the anti-friction bearing industry in this country has not changed since 1927 while British Timken has only 20% of the production in England, and French Timken 10% ~~of that~~ in France. The three companies combined would appear therefore not to have in excess of 23.2% of the production in that industry at the present time. Certainly, these percentages are modest as compared with the percentages of the industry involved in such cases as *United States v. United States Steel Corporation*, 251 U. S. 417. After considering the cases in which ~~this~~ question was involved, Judge Learned Hand, in *United States v. Aluminum Company of America*, 148 Fed. (2d) 416, *supra*, stated that, in determining whether or not a company has a monopoly in a particular industry "it is doubtful whether sixty or sixty-four per cent would be enough; and certainly thirty-three per cent is not" (p. 424). In *United States v. Columbia Steel Company*, 334 U. S. 495, *supra*, this Court held that, even if it should be assumed that in the future United States Steel Corporation could be expected to sell 13 per cent of the total

of structural steel products in Consolidated's trade area, and the latter 11 per cent (a total of 24 per cent), it could not be said that there would be an unreasonable restraint of trade resulting from the elimination of competition between Consolidated and the United States Steel structural fabricating subsidiaries.

Under all of these circumstances, it is clear that the joint operation of the Timken companies cannot result in giving them such a dominant position in the industry as to unduly restrain competition or obstruct trade. They are in the same position as were the parties in *United States v. Bausch & Lomb Optical Co.*, 321 U. S. 707, *supra*, in which the court emphasized the growth of competition after the organization of the joint venture in that case. It is significant in this connection that it is not charged that the Timken companies have attempted to monopolize the industry.

Nor has it been shown that the operation and practices of the Timken companies under their business arrangements have prejudicially affected the public interest in any manner.

On the contrary, the public interest has frequently been benefited thereby, as, for example, during World War II when British Timken, losing, through bombings, bearings and materials therefor needed in the war effort, was able to obtain exact replacements quickly from American Timken, SKF being of no assistance because of the metric sizes of its bearings (Pascoe, R. 408-410).

If, as we contend, the operation of the joint venture from 1927 to the date of Dewar's decease on December 21, 1950, long after the final judgment of the district court, was legal, then it goes without saying that there was no basis in fact for the judgment by the district court against American Timken.

Moreover, now that American Timken is in a position to become the majority stockholder of British Timken and the sole stockholder of French Timken by the exercise of

the options which it was granted as a part of the original plan, and the two corporations, therefore, will become its subsidiaries, the legal questions involved are those presented by the corporate integration cases such as *United States v. United States Steel Corporation,* 251 U. S. 417; *United States v. Paramount Pictures,* 334 U. S. 131; and *United States v. Columbia Steel Company,* 334 U. S. 495, *supra.* In the latter case this Court pointed out (page 527) that "the same tests which measure the legality of vertical integration by acquisition are also applicable to the acquisition of competitors in identical or similar lines of merchandise." Certainly, for the same reasons as those previously urged with respect to the joint venture, during its continuance, it is obvious that the acquisition by American Timken of these two subsidiaries will not prejudice the public interest by unduly restricting competition or obstructing the course of foreign commerce of the United States.

II.

ANY RESTRICTIVE PROVISIONS IN THE BUSINESS AGREEMENTS BETWEEN AMERICAN TIMKEN, BRITISH TIMKEN, AND FRENCH TIMKEN ARE REASONABLE AND PROPER PARTS OF THE LICENSE OF THE TRADEMARK "TIMKEN" BY AMERICAN TIMKEN TO BRITISH TIMKEN AND FRENCH TIMKEN.

This case presents an important question in respect of the right of the owner of a trade-mark to license it in various countries of the world, and the further question as to the terms upon which such licenses may be granted.

In paragraph 192 of its memorandum opinion (R. 1011) the district court made this observation:

> "Whether within the provisions of the Sherman Act commerce may be restrained to the extent that it is reasonably ancillary to protect a trade-mark has not been decided or discussed by the courts."

Preliminarily, it should be stated that the appellee's position as to ownership of the mark by American Timken, in connection with its licensing thereof, has been inconsistent throughout this case.

In the amended complaint references to the use of the trade-mark by American Timken appear at two points. In Section VI under the heading "Offenses Charged" and in subparagraph (e) of paragraph 20 the appellee alleged that one of the means of carrying out the combination was (R. 18, 19):

> "allocating the use of the trade-mark 'Timken' to each of the parties in its designated territory, requiring that the co-conspirators not manufacture, sell or otherwise deal in bearings except under the trade-mark 'Timken' and requiring said co-conspirators to agree to surrender to the defendant rights in the name 'Timken' upon termination of such contracts, agreements and understandings;"

And in paragraph 5 of the prayer of the amended complaint the relief sought in respect of the trade-mark is as follows (R. 24):

"That the defendant Timken be enjoined from transferring, selling or assigning the trade-mark 'Timken' to or for the use of co-conspirators Limited or Francaise, or the successors and assigns thereof, so as in any manner to exclude the defendant from using the trade-mark 'Timken' anywhere in the world."

From this language there are two very clear conclusions to be drawn. First, the case was tried on the theory that American Timken was the owner of the trade-mark "Timken"; and, second, the relief sought was to prevent it from licensing the trade-mark to British Timken or French Timken on an *exclusive basis*. There never has been any amendment of the pleadings, and the case proceeded to trial on the basis of the allegations made in the amended complaint. It was not until oral argument in the case that the plaintiff in the district court adopted any position to the effect that American Timken did not own the trade-mark "Timken," and that, as a result, it did not have such ownership as would sustain the licensing of the trade-mark.

In the appellee's motion filed in this Court in opposition to American Timken's Statement of Jurisdiction the claim was made that it did not own the trade-mark in substantial areas of the world. In fact, there was no finding by the district court, as will appear from an examination of its memorandum (R. 958-1018), on the question of the ownership of the trade-mark.

One point should be made clear at the outset and that is that the license of the trade-mark granted by American Timken to French and British Timken was never an *exclusive* license. The provisions in the 1938 business agreement as to the trade-mark are typical of those which appeared in all of the earlier contracts with British Timken and French Timken and there was at all times a common use of the trade-mark for some purposes.

1. American Timken Owns and Has Owned, the Trade-Mark "Timken," Either by Registration, or Equitably, in All Important Countries of the World.

The facts as to the early trade-mark situation are important for several reasons.

First, as bearing on the question of the intent, purpose and motive of American Timken in interesting itself in the acquisition of British Timken and the establishment of French Timken, American Timken contended in the district court, and reasserts its contention in this Court, that it desired to correct any problems which might have arisen prior to 1927 as to the ownership of the trade-mark "Timken," and did not intend in any way to thwart international trade illegally.

Second, the facts demonstrate that American Timken at all times owned the trade-mark "Timken." As heretofore stated, while this action was commenced by the appellee on the theory that American Timken was the owner of the trade-mark, nevertheless, belatedly and without any amendments of pleadings or otherwise, it has undertaken to contend that American Timken does not own it.

The 1909 agreements between American Timken and E. & O. A. were, basically, patent licenses but in addition they served the purpose of developing goodwill for the ultimate benefit of American Timken in the mark. When they were made American Timken was not manufacturing or selling in the British or European markets. At that time it was devoting all its resources to the business of exploiting the development and sale of tapered roller bearings—a type of anti-friction bearing which was new in the anti-friction bearing market and was competitive with other anti-friction bearings, namely, ball and straight roller bearings, the use of which had been widely extended in Europe theretofore and which had been brought to the United States after much development work had been done on them in Europe (R. 499-500). No such pre-

liminary work had been done in Europe on tapered roller bearings, and the business of promoting their development and sale by American Timken in America was distinctly a new, and essentially an American, business.

It is clear that the early agreements were made for the purpose of developing the foreign market for tapered roller bearings. Because of the novelty of the product, and of the then short existence of the business life of American Timken in America, it is not surprising to find that the 1909 agreements required the licensee to manufacture and sell American Timken's patented bearings under the name "Timken" exclusively (see *supra*, p. 34).

This constituted, essentially, an attempt by American Timken to project its good will ahead of its business by requiring the use of the surname of its founder in connection with the product of the British licensee, and causing the foreign public to identify them by that name.

Therefore, there was a clear inference of the right of American Timken to demand that the use of the name "Timken" be discontinued at the termination of the 1909 license agreements.

As has been stated, American Timken was not making sales in England or Europe as of the time the 1909 contracts were executed. No European manufacturer of products in which anti-friction bearings were used would have considered making itself dependent upon a type of anti-friction bearing untried in the European market, the manufacturing source of which was 3,000 miles away. It could not be said that American Timken assigned in effect to the British licensee any common law rights in a trade-mark by making the 1909 agreements. Rather it projected its reputation into the territory of the British licensee ahead of American Timken's use there of the name "Timken" as a trade-mark. In fact, the record discloses that the latter was not using the word "Timken" as a trade-mark on any of its products as of that date. By stipulation it is

agreed that it commenced marking its product with the mark "Timken" in 1912 (R. 949).

The British licensee commenced the manufacture of tapered roller bearings on a small scale in 1909, and continued manufacturing on that scale during the First World War until 1920. The record shows (Ellis, R. 430) and (Hobley, R. 436) that at all times its product bore the trade-mark "Timken." The effect of this user by the British licensee over the years was to create as between it and American Timken, certain rights of user in the word "Timken." At the same time there existed in American Timken the equitable right described by Dr. Ladas when he gave his opinion as to the effect of the contract under English law (Ladas, R. 612).

While there was no provision in either of the 1909 agreements by which the British licensee was obligated to assign to American Timken, upon termination, the common law rights which it might have acquired in the mark by its use on the bearings under the agreements, on the other hand, the provisions therein requiring the British licensee

> "to use the name 'Timken' exclusively in connection with the Roller Bearings made or sold by it under the agreement"

and to always describe itself as a licensee, necessitate the interpretation that it amounted to an agreement on the part of the British licensee that its rights to the trade-mark terminated with the end of the agreement, so that, at least on the abandonment thereof, American Timken could then acquire new rights in the trade-mark by using it on its own product (Ladas, R. 627).

As previously seen, in 1920 the rights of E. & O. A., as licensee of American Timken, were assigned to Wolseley Motors, another subsidiary of Vickers, the assignment being made with the consent of American Timken.

In the meantime, with the enactment by Congress of the Trade-mark Act of March 19, 1920, permitting, for the

first time, the registration of surnames which had been used in commerce for more than one year, American Timken registered, in 1921, the mark "Timken" in the United States for use on its products (R. 577), which had been in effect for a substantial period of time prior thereto (R. 949).

As detailed in the Statement (*supra*, pp. 36-38) at this time American Timken, which had been concerned as early as 1911 about maintaining exclusive rights in the name of its founders (Deft's. Exh. 60, R. 1945; offered, R. 577; Deft's. Exh. 61, R. 1946; offered, R. 578), became concerned about its rights therein in England and other foreign countries, and proceeded to obtain registrations of the trade-mark in many of them as early as 1922 after it had laid the necessary ground work by obtaining registration in this country. The following is a list of the registrations in British Timken territory and the dates upon which they were obtained (Deft's. Exh. 87, R. 1972-1991; offered, R. 587):

Australia	in 1923	Jugoslavia	in 1924
Austria	" 1923	Luxembourg	" 1923
Belgium	" 1922	Netherlands	" 1922
Bulgaria	" 1923	Norway	" 1922
Czechoslovakia	" 1923	Poland	" 1926
Denmark	" 1923	Portugal	" 1924
Finland	" 1923	Roumania	" 1923
Greece	" 1926	Spain	" 1923
Hungary	" 1923	Sweden	" 1923
India	" 1923	Switzerland	" 1923
Italy	" 1922	Turkey	" 1923

Nevertheless, British Timken, in the absence of agreement to the contrary, could have contested some of these registrations on the ground of prior use in the countries in which American Timken had obtained them.

In 1924, pursuant to the negotiations detailed in the Statement (*supra*, pp. 39-41), American Timken, shocked

by the statements made by British Timken to Lothrop, and willing to do practically anything to preserve its right in the name (Deft's. Exh. 83, R. 1966; offered, R. 586), obtained express recognition by British Timken that it was using American Timken's name as licensee, and, in fact the 1925 amendments to the 1909 license agreements were based upon continuation, by express license, of what had previously been an implied trade-mark license. However, these amendments were not properly worded to cover the trade-mark as such, and American Timken was advised later that there could be no such license of a trade-mark in gross under English law, as distinguished from a sort of equitable license, accomplished by agreement of the licensee to cease using the mark upon expiration of the agreement.

As previously seen, British trade-mark counsel, in 1926, advised that this type of contract could be enforced (Deft's. Exh. 99, R. 2005; offered, R. 594; R. 2006), and Ladas testified that it gave American Timken equitable ownership of the mark under English law at that time (R. 612).

It is clear from all the testimony that before 1909 and thereafter American Timken had the right to use the name "Timken," for it was the surname of its founder. The question of the status of American Timken's rights under the 1909 license agreement as to the United Kingdom, inasmuch as it was to be enforced in England, is preeminently a question of English law. In the trial in the lower court, the appellee offered no proof whatsoever on the subject of English or, in fact, any foreign law. In contrast, Dr. Ladas testified that under English law prior to, and after, 1928 it was possible for one party to have legal ownership of the mark while another had the equitable ownership thereof (R. 612). *This evidence is undisputed in the record.*

The business agreement of 1938 (Deft's. Exh. 27, R. 1771; offered, R. 291; R. 1773) defines the territory of British Timken as consisting of:

(1) The United Kingdom of Great Britain and Northern Ireland.

(2) All countries in Europe with the exception of France and Russia, and

(3) All colonies and dependencies of Great Britain and European countries other than France (except those adjacent to America).

As to the United Kingdom and Ireland, Ladas' opinion, interpreting the agreements under British law, is clear that American Timken was, at all times prior to 1938, the equitable owner of the mark in England and that as the result of an amendment to the English Trademark Law in 1938 (Ladas, R. 611), British Timken is now in a position, without having to transfer its goodwill, to comply fully with the requirement of the contract that the mark, including British Timken's registration thereof, be assigned to American Timken upon termination of the agreement.

French Timken is also a party to the 1938 Agreement and Dr. Ladas testified that it is in a position to transfer all right, title and interest in the trademark to American Timken upon the termination thereof (Ladas, R. 626).

It has been urged in the course of the trial of this case that the trademark difficulties of American Timken in France and Germany and in England were the result of the 1909 agreements which from time to time have been referred to as unlawful although never have opposing counsel given any clear statement of the basis of their characterization of these agreements as unlawful. As a matter of fact, there is no sound basis for calling them unlawful. It was impossible for American Timken to register the mark "Timken" in foreign countries until it had registered the mark in the United States, *Ladas, Protection of Industrial Property,* 477, 538; *Derenberg, Trademark Protection and Unfair Trading,* 716. Such registration was impossible until the amendment of the American Trademark Act in 1920. Thus, it was not pos-

sible for American Timken to register the mark in either France or Germany where registrations had been obtained, as heretofore outlined, by SMG and by Prausnitzer. The difficulty was, not the 1909 agreements, but the fact that it was impossible for American Timken to register a mark that consisted of the surname of the founder of the company in a foreign country until there was an American registration to support the foreign registration.

As to the three groups of countries included in British Timken territory, the situation was as follows.

In the United Kingdom of Great Britain and Northern Ireland, no registration could be obtained by American Timken because it could not show that the surname "Timken" had acquired a secondary meaning as indicating association of such name in the public mind in Great Britain with American Timken (R. 620).

On the European continent, American Timken had obtained registrations in all countries of Europe except France and Germany.

The only country in Europe where no registration was obtained by American Timken was Russia. There no registration was obtained, undoubtedly because, long after the establishment of the Soviet regime in Russia in 1919, the value of a trade-mark registration in that country was seriously questioned. Even today, few companies in the United States consider it worth while to obtain registration therein since, as is well known, imports into Russia are made only by Soviet controlled State trusts and there is no free international commerce.

With regard to France and Germany, no valid registration could be obtained by American Timken since the mark had already been registered with priority by other persons.

In all colonies and dependencies of Great Britain and of European countries the situation was as follows:

French colonies—No registration could be obtained there since a French registration extends to the whole

French Empire, with the exception of Morocco and Tunis (R. 450-451, 624).

Spanish colonies—American Timken's Spanish registration extended to all Spanish colonies.

Portuguese colonies—American Timken's registration in Portugal extended specifically to the Portuguese colonies but no direct registration may be obtained in them. It follows that the company which has a registration for a trade-mark in Portugal has practical protection in the colonies, since another party cannot obtain registration for the same or similar mark in Portugal with the view to extending it thereto (R. 631, 632).

British colonies—These are of several groups:

Colonies in which there is no special registration of trade-marks, or where only the owner of a British registration may obtain local colonial registration (R. 616). The inability of American Timken to obtain in its name registration in Great Britain explains why these colonies could not be covered by local registration..

Colonies in which separate registration could be obtained, but because of their commercial or industrial unimportance American trade-mark owners often avoid obtaining local registration. Such colonies are, for instance, Gambia, Gold Coast Colony, Southern Rhodesia, Nigeria, and the like.

British dominions. Of these, two were excluded from British Timken's territory: Canada and Newfoundland (as adjacent to North America). In two, registrations were obtained by American Timken, Australia and India in 1923 (Deft's. Exh. 87, R. 1972; offered, R. 587). This left only the Union of South Africa and New Zealand. In these two, as well as in a large number of other British colonies of the second group, American Timken could not obtain registration because "Timken" was unregisterable *per se* as a surname, and American Timken was not in a position to show secondary meaning of the mark.

Dutch colonies—Two of these, Dutch Guiana and Dutch West Indies were excluded from British Timken's territory because adjacent to South America. In the third Dutch colony, Netherlands East Indies, no registration had been obtained.

It is clear from the foregoing discussion that American Timken had acquired equitable title to the trademark and that it was a rather unimportant portion of British Timken's territory in which such title was not evidenced by registration as early as 1928.

The Fact that American Timken Was Unable to Obtain Registration of the Trademark in Certain Countries is Unimportant Because Registration is Not the Sole Test of Ownership of a Trademark.

It is well settled in common law countries, including the United States, that registration is nothing more than evidence of a right established by user. This Court so held in *American Trading Company vs. H. E. Heacock Company*, 285 U. S. 247, stating (p. 257):

> "Accordingly we must assume that it was the intention of the Congress in the Federal Trademark Act in 1905 to provide with respect to trademarks used in commerce between continental United States and the Philippine Islands a protection similar to that which was accorded by the Act to the use of trademarks in interstate commerce. *As to the latter, the Federal Statute did not attempt to create exclusive substantive rights in marks*, or to afford a refuge for a piracy through registration under the Act, but to provide appropriate procedure and to give the described protection and remedies where property rights existed. The acquisition of such property rights in trademarks rested upon the laws of the several states."

See also *United Drug Company vs. Rectanus*, 248 U. S. 90; 99; 2 *Callman, Unfair Competition and Trade-Marks*, 1670, and 2 *Nims on Trade-Marks*, 732. On the same point see *M'Ilhenny Company v. Gaidry*, 253 Fed., 613 (CCA 5,

1918); *General Baking Company v. Gorman*, 3 Fed. (2d), 891 (CCA 1, 1925); *Macauley v. Malt-Diastase Company*, 4 Fed. (2d), 944 (C. A., D. C., 1925); *Mulhens & Kropff, Inc. v. Ferd Muelhens, Inc.*, 38 Fed. (2d), 287 (D. C., S. D., N. Y., 1929); *E. F. Pritchard Company v. Consumers Brewing Company*, 136 Fed. (2d), 512 (CCA 6, 1943); *May v. Goodyear Tire & Rubber Company*, 10 Fed. Supp. 249 (D. C. D. Mass., 1935); *Slaymaker Lock Co. v. Reese*, 24 Fed. Supp., 69, (D. C. E. D. Pa., 1938); *Charles Broadway Rouss, Inc. v. Winchester Co.*, 300 Fed. 706 (CCA 2, 1924); *Armstrong Paint & Varnish Works v. Nu-Enamel Corporation*, 305 U. S. 315.

A second proposition illustrates the unimportance of registration in respect to ownership of a trademark. *A licensee of a trademark may hold a registration in its name during the term of the license.*

While the appellee commented in the court below upon the fact that registration of the mark for certain countries (Great Britain and Northern Ireland, New Zealand and the Union of South Africa) are in the name of the licensee, British Timken, and contended that this indicated that American Timken is not the owner of the mark, the rule is well established that a licensee may register a mark during the period of his license and that such registration is in no wise inconsistent, either with the ownership of the mark by the licensor, or with the licensee's right of user as licensee for the term of the license. Thus, in *Scandinavia Belting Company vs. Asbestos & Rubber Works of America*, 257 Fed. 937 (CCA 2, 1919), the court said (p. 955):

> "But in the case now before us this court holds that one who has the exclusive right to use a trade-mark in the United States has such a special ownership therein as entitles him to its registration *during the period of his exclusive use.* 'Ownership' is the right by which a thing belongs to some one in particular to the exclusion of all others. And the right to the exclusive use of this trade-mark in this country was in this plaintiff for a period of 27 years or 7 years be-

yond the registration period fixed by the statute. To say that the relation which existed between the English and the American company was that of agency does not help the defendant, for if it be conceded that the relation is that of agency it must also be conceded that it is an agency coupled with an interest, and the right to the exclusive use is one which cannot be withdrawn, and an interest sufficient to prevent revocation is sufficient to make the plaintiff such a special 'owner' of the trade-mark as entitled it to register the same under the provisions of the act. To hold that one who has the exclusive right to use a trademark has no right to have it registered under the act would be, in our opinion, subversive of the policy and intent of the statute."

Cf. *LaLanne vs. F. R. Arnold & Company*, 39 Fed. (2d), 269 (Ct. Cust., Pat. App., 1930) and *Smith vs. Dental Products Company*, 140 Fed. (2d), 140 (CCA 7, 1944).

Thus, it is clear that under American law there is no particular significance attached to registration where the agreement between the parties is clearly a license agreement. It should be stated again, however, that the problem of whether the same rule applies in the jurisdictions abroad where the registrations were in the names of the licensees is substantially a problem of local law there. The 1938 business agreement, like the earlier agreements, was not called specifically a trademark license, obviously because in England, at that time, it was not possible to have an out-and-out license of the trademark (Ladas, R. 611), although a license of a trademark was possible in all other countries covered by the agreements (Ladas, R. 619) However, a license was intended because the Heads of Agreement of 1927 contemplated a new business agreement extending the terms of the 1909 license agreements, as amended in 1925, which provided for trade mark licenses.

The record discloses that, under the 1938 contract, American Timken owns the trademark throughout the world. The question of ownership in a given country in-

volves the law of that country, for rights in a trademark do not extend beyond the confines of individual countries. Therefore, if the appellee proposed to contend that the appellant was not the owner of the mark "Timken," it was incumbent upon it to offer proof concerning the law of the countries in which it was claimed that American Timken was not the owner thereof. *No such proof was adduced on behalf of the appellee.*

There is a third reason why registration is not determinative of the right to license use of a trademark.

The position taken by the appellee, that an American company cannot invade a foreign market by licensing a foreign company to develop good will in its trademark in one or more foreign countries before the American company actually has invaded that market to the point that it can evidence its ownership in the mark by registration in that area, is clearly unsound. Indeed, under the authorities cited below, the appropriate interpretation of the 1909 agreements was that American Timken was using the operations of its first licensee under the 1909 agreements to develop good will in the name "Timken" in advance of any activity of American Timken in the market covered by the license agreements. The law of the United States is that one of the legitimate functions of a trademark license is to develop good will in the name of the licensor by licensing the use of the mark in an area where the licensor had not previously invaded. This was the holding of the Circuit Court of Appeals for the Sixth Circuit in *E. F. Pritchard Company vs. Consumers Brewing Company*, 136 Fed. (2d) 512 (CCA 6, 1943) in which the Court said (p. 519):

> "It is true, as contended by appellee, that a naked license to use a trade-mark is of no more validity than a naked assignment thereof. *Lea v. New Home Sewing Machine Co.*, C. C. N. Y., 139 F. 732. But a trade name, like a trade-mark, may be assigned, licensed, or lent, as long as it remains associated with the same

product or business with which it has become associated in the public mind. An owner of a trade name who lends the use of such a trade name, may resume its exclusive use according to the terms of the lending. *Cardinal v. Taylor,* 302 Mass. 220, 19 N. E. 2d 58. A manufacturer of a certain commodity, by agreeing to allow the purchaser thereof the use of its trade name for a certain period did not lose the exclusive right to the name after the expiration of the term; *J. F. Rowley Co. et al. v. Rowley,* 3 Cir., 18 F. 2d 700; *and one may introduce his trade-mark and create a demand for his variety of goods in a new territory, by licenses. Vermont Maple Syrup Co., Inc. v. Johnson Maple Syrup Co. et al.,* D. C. Vt., 272 F. 478."

In *Vermont Maple Syrup Company v. F. N. Johnson Maple Syrup Company,* 272 Fed. 478 (D. C. D. Vt., 1921), the Vermont Company, the licensee of the Johnson Company, having learned that the mark of the latter was not registered, took out registration in its own name under the laws of the United States and of various New England states and then claimed that it was the first one to use the mark in that area and that it thereby acquired the exclusive use of the mark, notwithstanding that it was the licensee, and sued to enjoin the Johnson Company from using the mark in that area. The court held that the Vermont Company should be enjoined from infringing the mark, because "a person may introduce his trademark and create a demand for his variety of goods in new territory by licenses" (p. 479).

Thus, even though it be conceded arguendo that American Timken was not the "owner," by user, of the mark in certain areas (and we do not use the term "owner" in this instance as synonymous with registrant) it was entirely proper for it to license the use of the mark in these areas in which its business had not been expanded to the point that by use it could claim to be the owner of the mark. This is a proper means of developing good will in advance of actual ownership of the mark so that upon termination of

the license, the licensor will have had it developed for his use and benefit as a result of the good will efforts of the licensee.

We think that from all the foregoing that there can be no serious question as to the right of American Timken as owner of the mark "Timken" to license its use.

Acquisition of the Trademark in France and Germany, Where Registrations Had Not Been Obtained by American Timken.

In discussing the action of American Timken in trying to resolve the trademark situation in 1927, the district court made an observation (Mem. par. 183; R. 1009), in our view totally unsupported by any evidence, that:

> "At that time defendant was primarily concerned, therefore, not in safeguarding the trademark rights which it then possessed, but rather in acquiring the rights obtained by other manufacturers, as a consequence of the early patent license agreements, in areas where defendant had agreed not to manufacture and sell * * *"

In fact, any reasonable analysis of the situation in respect of the trademark leads to exactly the opposite conclusion from that expressed by the court.

Let us assume that it had been possible for the trademark "Timken" to have fallen into unfriendly hands in many European countries, including England and France, as well as the other countries in which there could have been a question as to how successful American Timken might have been in maintaining its ownership of the trademark. It is to be borne in mind that at no time was American Timken foreclosed from these countries by the 1909 agreements, for in all of them there was a provision making it possible for American Timken to supply bearings to American automobile manufacturers for inclusion in the cars which they manufactured and sold in those countries. More than that, each such American manufacturer who used Tim-

ken bearings in his cars also could sell replacement bearings for such purpose in any European country. If the ownership of the mark "Timken" had been established in a foreign company, not only would American Timken have been foreclosed from selling bearings directly in such country, but any American manufacturer using Timken bearings would also have been prevented from shipping his equipment into such country if it was equipped with bearings marked "Timken." The problem of supplying bearings to literally thousands of American manufacturers without the trademark "Timken" on them would have been well-nigh insurmountable.

Therefore, instead of pursuing the objective stated by the district court, in truth, American Timken was maintaining a competitive position for itself and its customers in the European market by undertaking to straighten out the trademark situation.

The French Trade-Mark Situation.

The registration by SMG, British Timken's sub-licensee, of the mark in 1921 (see p. 44, *supra*), was *prima facie* incontestable in France unless American Timken was prepared to show in a French court that its use of the mark in France antedated the use there by SMG. American Timken had no direct contractual relationship with SMG by which the former might urge an interpretation that the equitable rights to the trademark belonged to it.

While, in the district court the appellee made much of the fact that a sub-licensee of American Timken's British licensee had registered the mark in France, all that can be fairly deduced from the proof as to this situation is that American Timken's British licensee was extremely careless in making its contract with the French company by failing to provide, either for registration in its own name of the mark in France, or for its return to the former upon termination of the sublicense with the French company.

Quite clearly it was proper, lawful and appropriate for American Timken to have for one of its purposes in the 1927 negotiations with Dewar the recognition of the former's rights in the French trademark in France. Far from being evidence of anything unlawful, that act on the part of American Timken displayed a measure of foresight calculated to keep it and its customers in the United States in a competitive position in the French market.

The German Trademark Situation.

Under the German law the registration of the trademark by Prausnitzer during World War I (p. 44, *supra*), was incontestable since the first registrant acquires title thereto (Ladas R. 613). Prior user was of no avail whatever, so that neither American Timken nor British Timken could dispute his title to the trademark. Both companies could have been excluded from the German market at the whim of this registrant, who had the right to apply the mark "Timken" to roller bearings of his own manufacture or those of any party sold by him. Moreover, Prausnitzer could have exported from Germany to all countries in which neither British nor American Timken had yet used the mark, and thus could have acquired by first user or by registration rights in the trademark "Timken" adverse to both companies.

In the district court the appellee sought to imply some ulterior purpose of American Timken in undertaking to obtain return of the registration of the mark in Germany. On any fair analysis, however, what does its action actually imply? Is there any real significance in the fact that a German national, Prausnitzer, registered an American surname for a kind of goods made by American Timken in the United States and by its English licensee in England, when Prausnitzer himself was not engaged in any manufacturing enterprise? The real fact, of course, is that Prausnitzer was able, because of the combination of the law in Ger-

many with the disruption of trade with Germany resulting from wartime conditions, to place himself in a strong bargaining position as to the trademark "Timken," of which he took full advantage. Certainly the fact that American Timken undertook to recover the registration of the mark from its piratical holder raises no presumption of any desire or intent to violate the antitrust laws or to restrain competition. Prausnitzer was not a manufacturer. There was no threat of competition from him but his position in respect of the mark was a serious one in that he could have prevented the importation into Germany of bearings, or products containing bearings, marked "Timken." Instead, the obvious result, and purpose, of its reacquiring the registration of the mark in Germany was to keep it and its customers in a stronger competitive position there than it otherwise would have been.

In the district court the appellee claimed that as of 1928 there were many areas in the world in which American Timken did not own the trademark "Timken." In fact, by that time the English situation had been crystallized to the point of an acknowledgment by British Timken in the 1925 amendments to the 1909 agreements that American Timken was the equitable owner of the trademark in England. Only in France and Germany were there outstanding registrations of the mark which had been obtained in the fashion heretofore outlined. Elsewhere on the continent of Europe there was no registration in the name of British Timken or any third party, for as has been pointed out as soon as it was possible to do so American Timken had actually obtained registrations in practically every commercial area of the world.

There is not, of course, the slightest evidence in the record to sustain any claim that consideration was ever given by American Timken to acquiring the ownership of the mark "Timken" in France for the purpose of suppressing competition by SMG, the then holder of the registration in that country. In fact, the record shows that

the principal manufacturing operations of the licensee, SMG, were devoted to ball bearings and its production of tapered roller bearings was so insignificant as to make any contention that such a purpose motivated American Timken's officers clearly contrary to the undisputed evidence (R. 440, 441).

All of this activity preceded the making of the 1928 contracts and, what is of perhaps even greater importance, took place long before there was any suggestion or hint of a possibility of making a contract looking toward the acquisition of whole or part ownership in British Timken.

In conclusion on this point, American Timken, in making the arrangement with Dewar in 1927, wished to acquire an interest in British Timken and to establish French Timken and German Timken in part to resolve finally the trademark situation. The mass of uncontroverted evidence in the Statement, including particularly the advice by American trademark counsel in 1927, shows this.

The effect of the 1928 business agreement with British Timken was to establish the equitable ownership of the mark in England, which had been recognized by the 1925 supplemental agreements with British Timken in a form that was not completely satisfactory to American Timken. By the establishment of French Timken, through the investment of American Timken and Dewar, and its purchase from SMG of the trademark registration in France, the French trademark problem was settled, and by the acquisition of German Timken, in which American Timken also invested a substantial amount, the trademark situation in Germany was disposed of by having an assignment from the registrant, Prausnitzer, to the German company. Upon dissolution of that company, the mark was transferred to British Timken inasmuch as it was licensed to use it in that area. Obviously, equitable ownership of the trademark in France and Germany by American Timken was recognized by the parties as early as the Heads of Agreement of 1927

in which, in Section 10(a), it was specifically provided that "any practical steps to be taken for the protection of the name Timken and securing the exclusive reversion of the name *in all countries*". (Deft's. Exh. 15, R. 1730; offered, R. 260; 1733) to American Timken at termination of the new business agreement between American Timken and British Timken extending the substance of the existing agreements between them for ten years. The Statement also discloses that during the negotiations prior to the making of the Heads of Agreement American Timken's representative, Ely, and Dewar agreed upon the formation, acquisition or organization of companies in France and Germany to manufacture and sell tapered roller bearings under the trademark "Timken." Thus, the whole plan contemplated acquisition of the French and German trademarks and licensing thereof to the Timken companies in those countries with equitable ownership and the ultimate right to the trademark at termination of the business agreements between the companies vested in American Timken. The agreement plainly called for a reversion of the trademark rights developed by the British and French companies to American Timken upon termination of the agreement.

While the provisions of the 1928, the 1934 and the 1938 agreements are not identical, in dealing with the subject of the use of the trademark, those contained in paragraphs 3 and 4 of the 1938 agreement (Deft's. Exh. 28, R. 1780-1789; offered, R. 291; R. 1782, 1783) are substantially the same as those contained in the earlier agreements[31] and are

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[31] "3. (A) Each of the parties hereto will use his best endeavours to maintain the distinctive character of the Trade-Mark 'Timken' and refrain from any act calculated to prejudice the rights of the parties hereto in respect thereof as now existing.

(B) It is intended that if the American Company shall so request then the British Company in its territory and if the American Company or the British Company shall so request then the French Company in its territory shall join with the requesting Company in an application for concurrent registration of the

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clearly based upon ownership of the trademark by American Timken.

2. American Timken Has Validly Licensed Use of the Trade-mark, By Controlled Licensing Thereof, to British Timken and French Timken.

The ownership of any property is in a limited sense monopolistic. It is so to the extent that any person, as the owner, can exclude any other person from a variety of rights in respect of his property, but the right that is called property, associated as it is with such exclusions, is that which the courts have undertaken to protect under our system of jurisprudence. See *Trade-Marks—Monopoly or Competition*, 43 Mich. Law Rev. 659.

In the well-known *Trade-Mark* cases, *United States v. Steffens*, 100 U. S. 82, this Court said in defining a trade-mark that (p. 92):

> "* * * It is a *property right* for which damages may be recovered in an action at law and the violation of which will be enjoined by a Court of Equity with compensation for past infringement. * * *"

(Continued from preceding page)

Trade-Mark 'Timken' if and so far as such registration is possible in the territory of the requested Company.

(C) It is intended that if and when the Business Agreement shall be terminated so far as regards the British Company or the French Company the British Company in the former case if and so far as it may be requested in writing by the American Company and the French Company in the latter case if and so far as it may be requested in writing by the American Company or the British Company shall cause the name 'Timken' to be eliminated from its corporate name and from the name of any person firm or Company controlled by it and shall refrain and cause any person firm or Company controlled by it to refrain from using the name 'Timken' as part of or in connection with his their or its name or as a Trade-Mark or Trade Name or otherwise and shall refrain from any act calculated to obstruct or delay the requesting Company in any steps which it may take with a view to establishing the right of the requesting Company to the use exclusively so far as practicable of the said name in the territory of the requested Com-

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In *Dupont Powder Company v. Masland*, 244 U. S. 100, this Court made the much quoted statement that (p. 102):

"* * * The word 'property' as applied to trade-marks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith * * *"

In *Bourjois & Co. v. Katzell*, 260 U. S. 689, the Court said (p. 692):

"* * * *The monopoly in that case (of a patent) is more extensive but we see no sufficient reason for holding that the monopoly of trade-mark so far as it goes is less complete.* It deals with a delicate matter that may be of great value but that easily is destroyed and therefore should be protected with corresponding care. * * *"

What then is the "property" that is referred to in the decisions from which quotations have just been set forth? What is the nature of the "monopoly" possessed by the owner of a trade-mark? A trade-mark represents an authentic seal which denotes the origin and the quality

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pany and so far as practicable shall assign or cause any person firm or Company controlled by it to assign to the requesting Company or as it may direct any Trade-Mark or other rights in respect of the said name in its ownership or control.

"4. (A) It is intended that so long as the British Company or the French Company is actually engaged in the manufacture of bearings the British Company shall follow any advice given by the American Company and the French Company shall follow any advice given by the American Company or the British Company with respect to the manufacture of bearings pursuant to the Business Agreement so far as the same shall be economically practicable under the circumstances of the business of the Company advised.

(B) It is also intended that the manufacturing operations of the British Company and the French Company shall at all reasonable times be open to inspection in the former case by the American Company and in the latter case by the American Company and the British Company or the representatives of the Company desiring such inspection."

of the goods that bear it. This Court in *Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co.,* 316 U. S. 203, stated (p. 205):

> "The protection of trade-marks is the law's recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them. A trade-mark is a merchandising short-cut which induces a purchaser to select what he wants, or what he has been led to believe he wants. The owner of a mark exploits this human propensity by making every effort to impregnate the atmosphere or the market with the drawing power of a congenial symbol. Whatever the means employed, the aim is the same—to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trade-mark owner has something of value. If another poaches upon the commercial magnetism of the symbol he has created, the owner can obtain legal redress * * *."

Thus, when courts refer to the protection of a trademark, they speak, essentially, of the protection of the business and the goodwill which it represents. Mr. Justice Holmes expressed this idea in *Prestonetts v. Coty,* 264 U. S. 359 as follows (p. 368):

> "* * * A trade-mark only gives the right to prohibit the use of it so far as to protect the owner's goodwill against the sale of another's product as his. * * *"

It is this right of ownership which this Court has held is sufficient to support a controlled license of a trade-mark.

The right of the owner of a trade-mark to license it has been recognized by the enactment by Congress of the Lanham Act, the international conventions to which the government of the United States is a party, and decisions of this and other courts in the United States.

All of these references show that there is no fundamental policy in the United States against the controlled licensing of a trade-mark. Admittedly, whether a proper

license is executed in a given country is a matter that must be controlled by the law of that country.[32]

The Lanham Act (60 Stat. 427) Effective 1947, Evidences United States Congressional Policy in Favor of Controlled Licensing of Trade-marks.

Section 5 of the Lanham Act permits licensing of the trade-mark to "related" companies;

> "Where a registered mark or a mark sought to be registered is or may be used legitimately by related companies, such use shall inure to the benefit of the registrant or applicant for registration, and such use shall not affect the validity of such mark or of its registration provided such mark is not used in such manner as to deceive the public."

The term "related company" is defined in Section 45 of the Act as follows:

> "The term 'related company' means any person who legitimately controls or is controlled by the registrant or applicant for registration in respect to the nature and quality of the goods or services in connection with which the mark is used."

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[32] Seemingly, the appellee concedes the soundness of this position for, in its "Statement Opposing Jurisdiction and Motion to Dismiss or Affirm" this statement appears:

> "The second important question alleged to be involved in this case is the right of an American company to license the use of its trademark 'Timken' abroad on a territorial basis. Whatever right an American company might have to license its trademark abroad, it would have this right only upon a national basis and only if (1) the law of the nation in question permits the licensing of trademarks and (2) the American company complies with the requirements of such law."

The amazing thing is that having adopted this position, the appellee should undertake to challenge the ownership of, and the licensing of the trademark by, American Timken in this case, when no proof of any sort was offered by the appellee on either subject. On the contrary, the uncontroverted evidence offered on behalf of American Timken shows beyond any question that the licenses given were permitted by the laws of the various countries and that there has been full compliance with the laws of the various jurisdictions covered by the licenses given to British Timken and French Timken.

This designation obviously includes "control" by way of contract and clearly contemplates a situation in which a licensor is required to take steps to see that the product manufactured pursuant to the trade-mark license is in quality the equal of the product of the licensor.

The licenses given by American Timken to British and French Timken correspond to the policy exhibited by Sections 5 and 45 of the Lanham Act, in that they provide means for control of these "related companies," "in respect to the nature and quality of the goods or services in connection with which the mark is used" as specified by Section 45 of the Lanham Act. Section 4 of the 1938 business agreement, quoted *supra* note 21, provides for such control by American Timken, the licensor.

This Court upheld a controlled license in *Bacardi Corporation of America v. Domenech*, 311 U. S. 150, discussed *infra*.

The Timken Companies Under Their Agreements Have Conformed to the Requirements of Controlled Licensing of Trade-marks.

In practice, British Timken and French Timken, as licensees of American Timken, correspond to its "related companies," as defined in the Lanham Act, or controlled licensees under the rules laid down by the United States courts.

The Statement discloses that information in respect of the manufacture of anti-friction bearings furnished by American Timken to the licensees of its trade-mark falls generally into three categories. They are, first, information concerning bearing applications, second, that concerning design of bearings to fit the applications, and third, that as to tooling to be used on machine tools for the manufacture of bearings. In the latter connection and closely associated with it is the necessity of further information as to how to use the machines and tools after the latter have been designed.

The testimony is simply overwhelming that there has been a constant stream of information on all points from American Timken to British and French Timken which commenced as soon as the first agreements were signed in 1928 and has been constant since that time, resulting in full compliance with the "guarantee" requirements of the law relating to trademark licensing.

The Policy of the United States as Evidenced by the International Conventions to Which this Country is a Party Supports the Controlled Licensing of a Trademark.

While, as we have noted, the Lanham Act as such does not have extra-territorial effect, one of the purposes of the enactment of the law was to bring our trademark law into conformity with the international conventions to which this country is a signatory and to give effect to their provisions. This purpose is expressed in Section 45 of the Act in the following language:

> "The intent of this act is * * * to provide rights and remedies stipulated by treaties and conventions concerning trademarks, trade names and unfair competition entered into between the United States and foreign nations."

The efforts of the United States Government toward the adoption of international legislation with respect to licensing of trade-marks date from at least 1910. The United States has been, since 1910, a party to the Pan American Convention for Trade-Marks and Other Rights of Industrial Property and since 1887 a party to the International Convention for the Protection of Industrial Property of 1883 which has been revised several times, most recently in 1934.

The United States took the initiative for the adoption of the Pan American Convention for the Protection of Trade-Marks signed at Buenos Aires on August 20, 1910 at the Fourth International Conference of American

States.[33] This Convention, ratified by the United States on March 21, 1911,[34] contains Article VII which provides:

> "The ownership of a trade-mark includes the right to enjoy the benefits thereof, and the right of assignment or *transfer* in whole *or in part* of its ownership *or its use* in accordance with the provisions of the laws of the respective States."

Thus, the United States, ever since 1910, has had an agreement with its twenty sister Republics to the south that the owner of a trade-mark may license the use thereof as a part of the whole system of the inter-American protection of trade-marks.

At the special Pan American Conference convened in Washington in 1929 the General Inter-American Convention for Trade-Mark and Commercial Protection[35] was adopted on February 20, 1929 which contains Article 11, consisting of two paragraphs, the first of which deals with assignment of trade-marks and the second with licenses. The text of this article reads:

> "The transfer of the ownership of a registered trade-mark in the country of its original registration shall be effective and shall be recognized in the other Contracting States * * *
>
> "The use and exploitation of trade-marks may be transferred separately for each country and such transfer shall be recorded upon the production of reliable proof that such transfer has been executed in accordance with the internal law of the State in which the transfer took place * * *"

This is a reiteration of the provision of the 1910 Convention, set forth even more clearly and explicitly. At the London Conference for revision of the International Con-

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[33] Cuarta Conferencia Internacional Americana, Buenos Aires, 1911, Vol. I.

[34] 39 Stat. at L., Pt. 2, p. 1675.

[35] 46 Stat. 2907. The convention is commented upon and applied by this Court in *Bacardi Corporation v. Domenech, supra.*

vention for the Protection of Industrial Property in 1934,[36] it was the United States Government itself which proposed a similar provision on licensing of trade-marks in the desire to create international legislation on this subject for the forty-odd countries party to such International Convention, just as it had helped to create such in the relations of the twenty-one American Republics. Its proposal for amendment of the Convention[37] read as follows:

> "Moreover, the countries of the Union will permit the use of the same trade-mark by companies related to each other so that the products sold by them are manufactured according to the same processes and technical formulas with the result that their appearance and nature are equivalent, provided that these products are duly marked with the name of the company who places them on sale with the indication of the country or place where they have been manufactured or produced."

It was on the basis of this proposal of the United States Government that the official conference undertook to insert a provision on licensing of trade-marks in the International Convention and that finally the text of Article 5 (c)(3)[38] was adopted, on the insistence primarily of the American delegation, as follows:

> "The simultaneous use of the same mark on identical or similar products by industrial or commercial establishments considered as joint owners of the mark according to the provisions of the national law of the country where protection is sought, shall neither prevent registration nor diminish in any way the protection accorded the said mark in any country of the Union, provided the said use does not result in inducing the public into error and is contrary to public interest."

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[36] See *Actes de la Conference Reunie a Londres* which are the minutes of the Conference published by the International Bureau of Berne in 1934.

[37] *Ibid.* p. 281.

[38] See *Actes*, pp. 281, 388, 460, 515.

While the proposal of the American Government was not adopted in the exact language proposed, in the final form of the amendment adopted the principle of licensing the use of a trade-mark by the proprietor thereof to a related company, subject to the condition that there be no deception of the public with regard to the origin of the products bearing the licensed trade-mark, became part of this Convention. The Convention was ratified by the United States on October 28, 1938, and is now part of our law.

The second paragraph of Article 11 of the Inter-American Convention of 1929, quoted *supra*, was considered by this Court in *Barcardi Corporation v. Domenech*, 311 U. S. 150. In this case the trade-mark was owned by a Cuban corporation which had used it on rum manufactured by it. The Cuban corporation licensed the plaintiff, Bacardi Corporation, to manufacture rum in accordance with its formula and under its trade-mark in Puerto Rico. The legislature of Puerto Rico undertook to prevent the use of the mark in Puerto Rico by enacting a statute that forbade the use of any trade-mark on any product made in Puerto Rico which had been used elsewhere than in continental United States and Puerto Rico. The question presented to this Court was whether or not enactment of the Puerto Rican legislature was valid under the existing law. Commenting upon the effect of the Inter-American Convention and its second provision, this court said (p. 164):

> "Then there is the additional recognition of the right to transfer the ownership of a registered mark, and also to transfer separately for each country the use and exploitation of trade-marks when the transfer is executed in accordance with the law of the place where it is made and is duly recorded. It will be observed that the right of protection of foreign marks on compliance with the prescribed formality is accorded in each of the ratifying states irrespective of citizenship or domicile. When the foreign mark is entitled by virtue of the treaty to registration in a ratifying state and is

duly registered there, the substantive right in its protection in that state attaches."

As a result of these considerations, the enactment of the Puerto Rican legislature was held invalid.

We submit that the proposals of the representatives of the American Government at the international conventions as outlined and the language of the international convention heretofore quoted and considered by this Court in the *Bacardi* case demonstrate clearly a policy on the part of the United States to permit licensing of trademarks on an international basis, country by country.

Controlled licenses of trademarks have been recognized by our courts. The late Edward S. Rogers, an acknowledged authority on the law of trademarks for the United States, summarized the development of trademark law in this and other countries in a report to the International Law Association in 1930 as follows, *Derenberg, Trademark Protection and Unfair Trading* (p. 586):

> "The American courts are beginning to realize that the value of a trademark does not depend upon the personal identity of the producer of the goods bearing it, that the mark is valuable only to the extent that the producer, by making a good article, has given the mark value. If the guarantee of quality which the mark implies is reserved by proper standards, there is no reason to insist that the commercial origin of the goods should remain unchanged."

This principle has been recognized in a variety of situations.

Licensing to controlled subsidiaries was approved in *Keebler Weyl Baking Co. v. J. S. Irvins' Sons, Inc.*, 7 Fed. Supp. 211 (D. C. E. D. Pa. 1934).

Licensing of his trademark by a distributor to a company manufacturing his product for him, subject to his supervision as to quality, was upheld in *Knight, Inc. v. Milner & Co.*, 283 Fed. 816 (D. C. N. D. Ohio 1922), and in *Freemen v. Huyck*, 7 Fed. Supp. 971 (D. C. N. D. N. Y. 1934).

Licensing use of the trademark in the sale of a product incorporating another product, such as Coca-Cola syrup, produced by the owner of the mark, subject to regulations imposed by the owner as to incorporation, has been upheld in *Coca-Cola Co. v. Bennett*, 238 Fed. 513 (CCA 8, 1916), *Coca-Cola Co. v. J. G. Butler & Sons*, 229 Fed. 224 (D. C. E. D. Ark., 1916), and *The Coca-Cola Bottling Co. v. The Coca-Cola Co.*, 269 Fed. 796 (D. C. Del. 1920).

This court has consistently recognized that trademark rights may be held concurrently on a territorial basis by different persons or corporations. Thus, in *Hanover Star Milling Company v. Metcalf*, 240 U. S. 403, it established the concept of "bona fide concurrent user" within the limits of the United States. It said (p. 416):

> "* * * But the mark of itself cannot travel to markets where there is no article to wear the badge and no trade to offer the article."

The court held that all three users of the mark "Tea Rose" for flour were the owners thereof in the respective areas in which they had been the first users. This Court applied the same principle in *United Drug Company v. Rectanus*, 248 U. S. 90; *Bourjois & Co. v. Katzell*, 260 U. S. 689; and in *American Trading Company v. Heacock Co.*, 285 U. S. 247.

Thus, it is clear that under American law, and by every reasonable consideration, the ownership of a trademark may be on a territorial basis, and that a license may be executed on that basis which may be absolute in form; and that, at the same time, there may be concurrent user of the same mark in other areas of the world or in other states of the United States if an ownership of the mark can be shown in such differing areas or countries.

3. The Territorial Provisions Set Up in the License of the Trademark "Timken" From American Timken to British Timken and French Timken in the Respective Countries Assigned to Each Company Are Not Violative of the Sherman Act.

An analysis of the various portions of the business agreement of 1928 (Deft's. Exh. 23, R. 1754; offered, R. 274) shows clearly that it was in form and content nothing more than an ordinary trademark license agreement. The subsequent business agreements have not differed essentially from the 1928 agreement.

Clause 1 confirms the pre-existing rights of use of the trademark by the licensee British company for the territory of the 1909 agreement and thus defines the territory to which the trade-mark license extends. The character of this licensee's rights is emphasized by Clause 9 which prohibits sub-licensing without the written approval of the licensor, and by Clause 15 which prohibits assignment of the license and provides that upon liquidation of the licensee the agreement is terminated.

Clause 2 provides that the two parties shall make reciprocal use of patents pertaining to improvements in the products for which the use of the mark is licensed, and Clause 5 is corollary to this, since it requires the licensee to work the patents in the licensed territory because failure to do so may cause forfeiture of the patents. And, of course, the affirmative use of the trade-mark by the licensee in such territory is incidentally required, since failure to use may expose the trade-mark to forfeiture under provisions of foreign laws that non-use of a trade-mark for a certain term may be held to be abandonment. This is an extremely significant provision indicating that failure of the licensee to use the mark in any such territory is proof that the license of the trade-mark is not being availed of and the license to that extent is revoked.

Clause 3 confirms the reversionary rights of American Timken in its trade-mark and its equitable rights therein which are the foundation of the agreement.

Clause 4 lays the foundation for the validity of the license by providing for the supplying of technical instruction and information for the manufacture of the products by the licensor to the licensee and the compliance by the licensee with such instructions. Part of the same system of control of the licensee by the licensor is the covenant under Clause 6 that the licensee may not manufacture or sell bearings except under the terms of the agreement, which means that the licensor could not allow the mark "Timken" to be used on products made not in conformity with its standards and instructions since this would tend to destroy the goodwill and reputation of the trade-mark.

Clause 6 contains also the requirement that all bearings made by the licensee shall bear the trade-mark "Timken." This is also a necessary incident to the license. American Timken could not be expected to supply know-how and technical information—results of large investment and development expense—to promote the manufacture and sale of a product sold in competition with "Timken." The whole purpose of the arrangement of American Timken from the beginning was to create a market and a goodwill for "Timken" on a world wide basis. Of course, the licensee was put into the disadvantageous position by which, at the termination of the license, it would have to adopt a new mark for its products, but this is incident to any license agreement. Any "Coca-Cola" bottler whose bottling agreement is terminated will find himself in the necessity, if he wishes to continue his bottling business, of having to adopt a new mark and try to maintain or create a new market for it. In any case, the position of the licensee is mitigated by Clause 14 which gives

it a six-month period to enable it to shift to a new trade-mark while still selling "Timken" bearings.

Clause 7 is a natural incident of a trade-mark license agreement. American Timken could not expect British Timken to invest in, and develop, a business in a large territory of the world for "Timken" products and at the same time engage in a commercial fight with the same company which licensed it. Nor could American Timken be expected, as a penalty for granting this trade-mark license, to have the licensee engage in a commercial struggle with the licensor. And yet, keeping in mind the necessities of international trade, American Timken, as the licensor, restricted the effects of the license granted to the licensee and in effect made such license non-exclusive for certain important purposes which did not involve direct invasion by the licensor of the licensee's territory, which would have nullified the license. The license was non-exclusive in the following respects: completed manufactured articles made in the United States containing "Timken" bearings could be freely imported into the licensed territory of the licensee; replacement bearings for such completed articles could be freely imported by American Timken into the same territory; and manufacturers of vehicles in the United States could import American Timken's bearings into the territory licensed.

Corresponding rights were granted to the licensee.

Clauses 10 to 12 determine the royalty payment under the license—a normal provision in such an agreement.

In conclusion, there is no provision in the whole agreement which is not a natural and reasonable clause of an ordinary trade-mark license agreement.

It has already been shown in this brief that this Court has recognized the right to own and the right to transfer trademarks on a territorial basis and indeed the right to license them on a territorial basis. It seems clear to us,

therefore, that, if a license agreement does no more than that, it is not unlawful and does not extend the rights of a licensee beyond the ordinary scope of trademark ownership.

The first reason that suggests itself for this conclusion is the fact that ownership or right of user of a trademark does not preclude any third party from engaging in competition with the owner or licensee of the trademark in the sale of the product covered by the mark. Thus, even though American Timken owns and uses the trademark "Timken" to distinguish antifriction bearings of its manufacture, no third party is thereby precluded from making the same kind of antifriction bearings under a different mark in the United States or any place else in the world where American Timken owns the mark, in competition with it, or its licensees. The "monopoly" owned by American Timken through the medium of the trademark is limited in scope. It is limited to the point that it can only lawfully object to a competitor's undertaking to use the trademark "Timken," or a trademark similar thereto, in connection with the manufacture of a similar product which is in competition with American Timken's.

It is easy to pin the badge of "monopoly" on a trademark as a means of trying to make it appear that it is therefore an undesirable medium for use in the economic world. In fact, it is an instrument for the promotion of competition.

We have already referred to many instances in which this Court and other American courts have sustained the right to own and use a trademark on a territorial basis. Admittedly, a patent is not the same as a trademark in many respects. It has been recognized generally, however, that it is proper for the owner of a patent to grant a license thereof on a territorial basis. In *Agawam Woolen Company v. Jordan*, 74 U. S. 583, in discussing the general

principles of law involved in the rights of a patentee, this Court said (p. 593) that:

> "He may assign the letters patent by an instrument in writing either as to the whole interest or any undivided part thereof; or he may grant and convey to another the exclusive right under the patent to make and use and grant to others to make and use the thing patented within and throughout *any specified district.*"

See also, *United States v. General Electric Company*, 272 U. S. 476; *Ethyl Gasoline Corporation v. United States*, 309 U. S. 436, 456; *L. E. Waterman Company v. Kline*, 234 Fed. 891 (CCA 4, 1916); *American Equipment Company v. Tuthill*, 69 Fed. (2d) 406 (CCA 7, 1934); *Becton, Dickinson & Company v. Eisele & Company*, 86 Fed. (2d) 267 (CCA 6, 1936); *American Lecithin Company v. Warfield*, 105 Fed. (2d) 207 (CCA 7, 1939); and *Extractol Process Limited v. Hiram Walker & Sons, Inc.*, 153 Fed. (2d) 264 (CCA 7, 1946).

Thus, it is well established that the owner of a patent may license it in the United States and restrict the licensee as to area and such a license may be exclusive if the parties wish it to be. If this is the rule as to the licensing of patents, there is no sound reason why the same rule should not apply to the licensing of a trademark as well. As previously seen, territorial restraints in a patent license agreement are, basically, restraints reasonable because ancillary to the valid transaction of licensing the patent. In the only case decided involving licensing of a trademark in exclusive territories, *The Coca-Cola Bottling Co. v. The Coca-Cola Co.*, 269 Fed. 796, *supra*, the court held the restraints legal on this basis, saying (p. 814):

> "The defendant points out certain covenants of paragraphs 6, 7, 11, and 12 of the contract as amended in 1915 to show that the contract is in restraint of trade. It cites *Floding v. Floding*, 137 Ga. 531, 73 S. E. 729, and other cases, to show that the courts of Georgia refuse to recognize an agreement not to oper-

ate the same business in a territory very large in area as being in reasonable restraint of trade. But such cases have no analogy to the case at bar, where the effect of the contract was not to transfer the whole business of the vendor, but only an incidental and potential business arising out of the main business of the vendor. It is unnecessary to analyze the several covenants pointed out as being in unreasonable restraint of trade. Those covenants at most operate as a partial and not as a general restraint, and are 'merely ancillary to the main purpose of a lawful contract, and necessary *to protect the covenantee in the enjoyment of the legitimate fruits of the contract, or to protect him from the dangers of an unjust use of those fruits by the other party,' or were covenants necessary to protect the Georgia corporation in its retained business.* Such provisions are valid. *United States v. Addyston Pipe & Steel Co.*, 85 Fed. 271, 29 CCA 141, 46 LRA 122; *John D. Park & Sons Co. v. Hartman*, 153 Fed. 24, 82 CCA 158, 12 LRA (N. S.) 135. I find in the contract nothing having an effect or intended to have an effect to defeat or lessen competition or to encourage or tend to create a monopoly, nor do I find anything therein that may be said to be in unreasonable restraint of trade."

In conclusion, on this point, the territorial limitations were necessary, would have been observed in any event, and were not so restrictive as to indicate wrongful intent.

The numerous restrictions on the transaction of international trade as to which there is an abundance of proof in the record show beyond any doubt that there are many times when licensing the use of the trademark abroad in one or more countries is the only method available to an American company for the transaction of foreign business. The mark involved in this case is a manufacturing mark. Aside from any trademark consideration, if both the licensor and the licensee are making and selling, it is entirely conceivable that a licensee would not be willing to risk the investment in a business for the manufacture of a

product covered by a trademark unless he could be certain of not incurring the risk of having his business destroyed. As a matter of ordinary business prudence, he would feel obliged not to enter into any license agreement if, as a practical result, he knew that the laws of the United States would require the licensor to immediately set up a competing manufacturing and sales organization with his (the licensee's) at the risk of being held in violation of the Sherman Act.

In fact, the agreements for the territorial restrictions in the territory of British Timken and French Timken accomplished no more than what was essential for the protection of the trademark for both the licensor and the licensee. Even if there had been no such clause in the agreement of 1938 and the predecessor agreements, American Timken, of its own free will and not as a matter of contractual stipulation, would have refrained from using its mark if such use would have destroyed it in Great Britain and France. The use it made by the exempted sales for use in completed automobiles, replacement parts, etc., did not impair the validity of the trademark. Such goods were only dealt in by dealers who were service agents for the imported machines, which distinguished American Timken's goods by the fact that they were imported for replacement parts for use in foreign equipment only, and were marked with an indication of origin so that no confusion really arose between its goods and those of British Timken by such imports on a small scale.

Finally, the agreement in this instance did not seek to engraft upon the ownership right of American Timken anything beyond that reasonably included in the scope of the trademark as such. There was no requirement that either of the foreign companies purchase from American Timken any particular number of bearings or any surplus bearings. There was no agreement establishing the price at which British Timken or French Timken would sell bear-

ings in the markets in which they were to operate. Indeed, American Timken made possible the importation into this country of products produced in the territories of the licensees equipped with Timken bearings which otherwise would not have been permitted entry into the United States. As of the time that the agreements were executed in 1928, American Timken was the admitted owner of the trademark in the United States. It had registered with the customs authorities its ownership of the mark. Thus, any product which was produced by a manufacturer outside of the United States, in which a bearing carrying the mark "Timken" was included, could have been stopped at the port of entry. The agreement contemplates, however, that any product manufactured in the territory of the foreign Timken companies which is equipped with a bearing marked "Timken" shall be permitted to come into the United States as well as replacement bearings therefor. Clearly, the license agreement, instead of restricting trade, expanded the opportunity for trade in a fashion that is entirely reasonable and proper.

We submit, therefore, that the business agreements from 1928 and thereafter have in nowise violated the Sherman Act, and that the inclusion of territorial provisions in a trademark license of the type involved in this case, is entirely lawful. Therefore, for this reason alone the arrangements between the three Timken companies are lawful.

III.

THE PURPORTED FINDINGS OF FACT UPON WHICH THE DISTRICT COURT BASED ITS JUDGMENT ARE CLEARLY ERRONEOUS.

It is American Timken's contention that the district court proceeded throughout in its consideration of this case upon an assumption as to material matters of fact which is wholly inconsistent with, and unsupported by the evidence, which is indisputably to the contrary.

The findings of fact to which American Timken excepts and assigns as clearly erroneous, are set forth in detail in its assignment of errors (Numbers 42-110, inclusive; R. 1269-1283), and, relying thereon, we proceed to call the Court's attention to some of the most outstanding mistakes and misconceptions of the district court as to what we believe to be controlling questions of fact.

We are aware that Federal Rule of Civil Procedure 52(a) provides that the findings of fact of the trial court shall not be set aside upon review "unless clearly erroneous," and that this Court on this appeal will not try the case *de novo*. We submit, however, that the rule announced by this Court in the recent case of *United States v. United States Gypsum Company*, 333 U. S. 364, is applicable here. It was there held that, under Rule 52(a), "a finding of fact by the trial court is 'clearly erroneous' when, although there is evidence to support it, the reviewing court upon the entire evidence is left with the definite and firm conviction that a mistake has been committed" (p. 395.)

1. The District Court's Conclusion That At Various Times American Timken Was Combining With Potential or Actual Competitors is Clearly Erroneous.

At various points in its memorandum, the district court indicated that American Timken, pursuant to the business agreements from 1909 on, was dealing with actual or potential competitors. This idea obviously colored the district court's decision and influenced it in its conclusion that

American Timken had continued, in 1927, a combination for the specific purpose of stifling competition which had been formed some time before its acquisition of British Timken in 1927 (see section 3, *infra*).

American Timken and E. & O. A. The court made the observation at one point that the present relationship between the parties is "the outgrowth of the principal agreements in 1909, *when world markets were divided and competition was eliminated*" (Mem. par. 120, R. 995), thus clearly implying that, when the 1909 patent license agreements were entered into, they amounted to division of the world by potential competitors. Actually, as the Statement shows, E. & O. A., Vickers' subsidiary with which those agreements were made, had never manufactured any type of anti-friction bearing prior to the making of the 1909 agreements and commenced operations with a staff of not more than a half a dozen people.

American Timken and the Vickers subsidiaries from 1909 to 1927. The district court, again, stated that after the basic patents pertaining to the tapered roller bearing had expired in 1924, the 1909 license agreements, as amended in 1925, "were without pretense, contracts for the avowed purpose of suppressing competition" because they no longer revolved around the patents (Mem. par. 121, R. 995). Again the district court clearly continued the thought that the parties had divided world markets and eliminated competition, thus, at least, implying the existence at that time of a combination between strong potential competitors to control the alleged tapered roller bearing industry.

Actually, the Statement shows that Wolseley Motors, which took over the licenses from E. & O. A. in 1920, was not a possible competitor of American Timken because it had always been an automobile manufacturer, and British Timken, which was organized in 1920 to handle the bearing business as a wholly owned subsidiary of Wolseley Motors,

was no more a strong potential competitor than was its parent at that time. The Statement further discloses that from 1920 to 1927 British Timken was continually calling for assistance from American Timken in order to meet competition, and as late as 1926 was in a very poor condition to compete even in its own British market. Indeed in Ely's letter to Duncan as late as 1924 (Deft's. Exh. 83, R. 1966; offered, R. 586; R. 1967) he suggested the possibility of canceling the license agreement because British Timken's production was below the minimum specified in the license agreement. No good reason is suggested as to why American Timken would consider such a company a *strong* potential competitor.

American Timken and British Timken in 1927, at the time of American Timken's acquisition of the latter. This, of course, is the most important situation in which the district court found that American Timken was dealing with a potential or actual competitor. The district court found that in 1927 British Timken was a prosperous concern which had grown faster than American Timken and that its potent leadership in the industry compared favorably with that of American Timken so that it had become "a potential formidable competitor in the field of roller bearings" (Mem. pars. 34, R. 965; 36, R. 966). All the evidence is plainly to the contrary. In the Statement the relative impotency of British Timken is described.

The mass of uncontroverted evidence as to the actual situation of British Timken, and its predecessor subsidiaries of Vickers from 1909 to 1927, discussed in the Statement, all of which was ignored by the district court, shows without question that British Timken was not a "potential formidable competitor" of American Timken or any other company in the field of roller bearings. It was calling for help at all times, due to competition from SKF, it could not manufacture tapered roller bearings at a cost which enabled it to be competitive with the bearing manufacturers

in its own country, and, even after American Timken acquired it and had introduced American methods of production, its costs were still twice those of American Timken on comparable bearings. On the basis of comparative sales in 1926 it was 1/25th the size of American Timken and employed 500 people at that time, whereas American Timken was employing many thousands.

The district court's finding that British Timken had grown relatively faster than had American Timken is erroneous. This statement is undoubtedly based upon calculations which were contained in the appellee's brief in the district court in which it contended that British Timken sales had almost doubled in the six-year period preceding 1928, while American Timken's had increased only about 35%. This result was arrived at by comparing British Timken sales for the years 1922 through 1926 (Deft's. Exh. 230, R. 2545; offered, R. 943) with American Timken's sales for the years 1922 through 1927 (Deft's. Exh. 229, R. 2544; offered, R. 943). British Timken's sales of £240,202 in 1926 were almost double its sales of £139,370 in 1922, which, however, had decreased from £145,364 in 1921 and £212,524 in 1920, so that the period from 1922 through 1926 was not a representative period. Figures on American Timken's sales prior to 1922 do not appear in the record.

Dewar, who knew more about the matter than anybody else is uncontradicted when he said, in substance, that, without American Timken's help British Timken would never have survived.

This entirely erroneous conception of the condition of British Timken in 1927 obviously influenced the district court in its consideration of the propriety of the business agreements made in 1928 originally, and continued during the years 1928 and 1938 between the two companies, because the court said that they were "made between two manufacturers who on the basis of the evidence, were

properly characterized as the largest manufacturer in the world and the largest manufacturer in Great Britain respectively" (Mem. par. 36, R. 966).

American Timken and French Timken. Perhaps the outstanding example of the district court's erroneous conception of the potential or actual competitive conditions between American Timken and the other Timken companies is that with regard to French Timken. Here the district court found that American Timken "participated in the formation of and invested in the stock of *a potential competitor* in France" (Mem. par. 160, R. 1005). How a corporation which American Timken participated in organizing, and more than 70% of whose capital was furnished by it, could be regarded as an important "potential" competitor is difficult to understand.

Again, the district court called attention to the fact that ever since 1909 American Timken had maintained territorial market restrictions "in France with the predecessor of French Timken" (Mem. par. 152, R. 1003). The uncontroverted evidence discloses that the district court's finding that SMG was a "predecessor" of French Timken was clearly erroneous, for two reasons: first, because American Timken never had *any* contract with SMG and, second, because SMG was an entirely independent bearing manufacturer which, after selling the trademark to French Timken upon its organization by American Timken and Dewar, subsequently sold all of its assets to SKF *and became an SKF subsidiary in 1930* (R. 441).

Moreover, the uncontroverted evidence in the record discloses that not only was it impossible for these foreign companies to compete with American Timken by importing bearings into the United States during the whole period in question, but also that it would have been impossible for American Timken to compete with them on any practical basis for original installation business and consequent replacement sales in the territories in which they operated.

Other anti-friction bearing manufacturers in Europe cannot and do not sell on any substantial basis in the United States and American manufacturers cannot and do not sell in Europe to any extent. The practical reasons have been fully explained. The fact that such foreign companies as SKF and Norma Hoffman have established subsidiaries in this and other countries for the purpose of conducting bearing business in such countries, as shown in the Statement, bears out American Timken's claim in this respect.

American Timken, in addition to producing tapered roller bearings, manufactures an alloy steel tubing which is very advantageous in making anti-friction bearings. It is uncontradicted that since 1927 American Timken has sold this tubing to all its competitors who manufacture roller and ball bearings in the United States. There is no sensible explanation as to why American Timken should supply its competitors in this country with a basic need, plus information as to how to use this tubing to the best advantage, and at the same time make foreign agreements alleged to have as their purpose the stifling of nonexistent foreign competition.

Thus, the district court's conclusions with respect to alleged combinations between American Timken and various potential or actual competitors from 1909 on were clearly erroneous, and no doubt had great weight in influencing it to the decision which it finally reached.

2. The District Court's Findings as to the "Dominant" Position of the Timken Companies in the Alleged Tapered Roller Bearing Industry and Market are Clearly Erroneous.

The district court was obviously mistaken in reaching the conclusion that there is a separate and distinct tapered roller bearing ma[rk]et and industry in which American Timken, British Timken and French Timken occupied "dominant" positions (Mem. pars. 9, R. 960; 15, R. 961; and 146,

R. 1002). The Statement, *supra*, shows without question that they compete with others primarily in the anti-friction bearing industry, in which they produce approximately 25%, 20% and 10%, of anti-friction bearings in their separate countries. The district court's statement as to the extent of competition between tapered roller bearings and other types of bearings (Mem. par. 19, R. 962; par. 130, R. 997) ignores the uncontroverted evidence that they compete with other anti-friction bearings 90% of the time for original installation business, and gives the distinct impression that competition with other types of bearings exists only to a quite limited extent. Moreover, the district court's statement (Mem. par. 20, R. 962), that tapered roller bearings "constitute a distinct type of anti-friction bearings which fulfills a requirement not supplied or satisfied by others," is contrary to the uncontroverted evidence that bearings are designed to take radial and end thrust loads, and that ball bearings and other types of roller bearings are designed to perform these functions just as do tapered roller bearings, the only difference being in the way that these objects are accomplished.

Obviously, the frequent references to the "dominant" position of the three Timken companies in the "tapered roller bearing industry" and to their "dominant" position in the anti-friction bearing industry[39] shows how much the district court was impressed by their supposedly controlling influence in determining that they had combined illegally for the purpose of forming a "smoothly operating combination to control commerce in the tapered bearing industry throughout the entire world" (Mem. par. 146, R. 1002). Therefore, the district court's mistake as to the nature and extent of the market in which the three companies compete with others was obviously prejudicial to them.

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[39] See Note 4, *supra*, for a full reference to the district court's statements in this regard.

3. The Treatment by the District Court of the Three Timken Companies as Independent Operating Units For the Purpose of Determining That They Had Combined in Violation of the Sherman Act, and Its Failure to Consider Evidence Which Demonstrated That They Were Engaged in a Joint Venture, and Its Conclusion That Their Relation Was Merely a Continuation of an Illegal Combination in Restraint of Trade Created By American Timken and Vickers' Subsidiaries Under the 1909 License Agreements, as Amended, are Clearly Erroneous.

This is the fundamental mistake made by the district court in its consideration of the evidence in this case. 2

The court in the course of its opinion did state some (and omitted many more) of the facts surrounding the joint venture of American Timken and Dewar having for its object the manufacture and distribution of tapered roller bearings in foreign lands, the acquisition of British Timken by them, their joint creation of French Timken, their method of managing and controlling the two foreign companies, the license of the trademark, the exchange of know-how, the assistance rendered by American Timken to the two foreign companies, and other evidentiary facts. An examination of its opinion, however, cannot fail to disclose that, throughout, it regarded the two foreign Timken companies as, not only separate and distinct corporate entities (which they at all times were), but as independent operating units and factors in the tapered roller bearing business, *which upon the uncontrovertible evidence, they clearly were not.*

This appears particularly from the following statements in the district court's memorandum:

"123. The relationship effected and maintained was not that which prevails between a manufacturer and its exclusive foreign agents for the distribution of its product. *Each company* was a manufacturer and distributor, *independent of the others*, but joined for the sole and only purpose of mutual benefits. It is not

even contended that defendant, British Timken and French Timken ever competed.'" (R. 996)

"144. Defendant seeks to draw a parallel between the instant facts and those in the Columbia Steel case, supra. By contradistinction from the facts in that case defendant, British Timken and French Timken, *are separate corporations* who in their respective territories, both before and after their agreements, were potential competitors in the tapered bearing market. They were the largest dealers in tapered bearings in their respective territories. They occupied dominant positions in the entire anti-friction bearing industry. Defendant did not acquire British and French Timken." (R. 1001)

That the Court treated the three Timken companies as independent units is further evidenced by its adoption in its memorandum of the appellee's statement of the legal questions presented (R. 959):

"4. The factual and legal questions to be determined in respect of the charges of the complaint are posed by the Government as follows:

"5. Within the purview of the Sherman Act is it illegal for the 'defendant and two foreign corporations, which between them manufacture and sell a substantial portion of the world's production of anti-friction bearings, to regulate interstate and foreign commerce by private arrangements embodying the following restrictive practices'?"

The conclusion is irresistible that each of the "two foreign corporations" was here regarded by the district court as a wholly independent unit of operation—thus imparting to the agreements and understandings between the three respective Timken companies the same character as they might have if made between the three acknowledged competitors in any branch of industry as, for example, in the automobile industry, General Motors, Chrysler and Ford. And the following paragraphs throughout the district court's memorandum, dealing with the agreements,

understandings and acts of the respective Timken companies relating to various phases of the case, conclusively demonstrate that the court did consider and treat each of them as an independent operating unit: 15, 72, 78, 79, 88, 95, 99, 117, 124, 128, 129, 132, 134, 146, 147, 150, 154, 157, 160, 183, 204 and 210.

Proceeding upon the basis that the three companies were independent, the district court discussed at great length (Mem. pars. 70, R. 972, through 105, R. 990) evidence tending to show collaboration by them, all of which was just as consistent with the legal joint adventure to which they were parties and the licensing of the trademark as with an illegal combination in restraint of trade between independent operating units. The district court then discussed some evidence relating to agreements made between British Timken and French Timken and SKF subsidiaries in their countries which, as the uncontroverted evidence discloses, were terminated in 1939, have never been in operation since that date, and did not affect American commerce (Mem. pars. 106, R. 991, through 115, R. 994). Based upon this recital of evidence and facts, the district court found that the three companies had engaged in an illegal combination in restraint of trade by allocating territories, fixing prices, mutual assistance to protect each other's markets, and to eliminate the competition of outsiders and participation in foreign cartels (Mem. par. 117, R. 994), and that the evidence disclosed "an extensive and far-reaching combination to smother all competition between defendant, British and French Timken, and to stifle or suppress competition of other manufacturers by joint effort against them or by agreement with them" (Mem. par. 119, R. 995).

The court's answer to American Timken's contention that the restraints imposed upon trade by the business agreements from 1928 on were reasonable because ancillary to the operation of the joint adventure between American Timken and Dewar, was, fundamentally that, even though

"if a joint venture or partnership is formed for the purpose of a lawful business enterprise and restraints result from the right to protect established business interests no violation of law occurs," nevertheless, "if the association is formed *for the purpose* of *continuing* a combination to allocate exclusive territories in the world, to fix prices and to eliminate competition both within and without the combination, it cannot hide from the effects of the law *under the cloak* of a joint venture or partnership" (Mem. par. 163, R. 1006). The district court's theory n this respect was based on *United States v. Addyston Pipe & Steel Company*, 85 Fed. 271; *supra*, in which the court said (p. 291), that, when the case turns on the above proposition of law, "the *actual intent* to monopolize must appear. It is not deemed enough that the mere tendency of the provisions of the contract should be to restrain competition. In such cases the restraint of competition ceases to be ancillary and becomes the *main purpose* of the contract and the transfer of property and good will *or the partnership agreement* is merely ancillary and subordinate to that purpose * * *."

The district court was thus obviously of the opinion that from 1927 on, American Timken and Dewar, in spite of their negotiations upon the basis that they were to be "partners," not discussed at all by the district court (Mem. par. 41, R. 967), and the plan and agreement resulting therefrom, were merely "*continuing a combination*" (Mem. pars. 149, R. 1003, and 163, R. 1007) to restrain trade which had previously come into existence prior to their entering into their Heads of Agreement of May 16, 1927.

Other parts of the district court's memorandum also demonstrate that this is a correct analysis of its essential holding on this point. The court held, in substance, that the alleged combination was the "outgrowth of the principal agreements in 1909 when world markets were divided and competition was eliminated" (Mem. par. 120, R. 995), that those agreements were extended by the 1925 amendments

thereto, after all the basic tapered roller bearing patents had expired (Mem. par. 31, R. 965), and thereafter were no longer based on patents *"but were without pretense contracts for the avowed*[40] *purpose of suppressing competition"* (Mem. par. 121, R. 995), and, therefore, that the restraints were not ancillary to the joint adventure but, instead, the arrangements between American Timken and Dewar were made "to carry on effectively" the pre-existing alleged combination (Mem. pars. 152, R. 1003; 153, R. 1004; 154, R. 1004).

Thus it is seen, that the fundamental basis of the district court's decision was, that the 1909 patent license agreements set the pattern of restraints, that the restraints were continued in effect after the patents expired in 1924 *for the specific purpose of restraining trade,* and this *intentional* violation of the Sherman Act was merely continued by the subsequent relations between American Timken and Dewar, which were merely a "cloak" therefor.

If, therefore, the district court's opinion on this vital fact, which caused it to disregard all of the evidence tending to establish the joint venture, was erroneous, then, certainly, a clear mistake has occurred because the keystone of the arch upon which the court's decision is erected falls to the ground.

In concluding that there was not even a colorable legal basis for the restraints imposed by the 1909 license agreements after the basic patents terminated in 1924, the district court completely ignored uncontroverted evidence that American Timken's American trademark counsel advised it on February 23, 1924, prior to the negotiation of the modifications of the 1909 license agreements, that they had

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[40] The district court based this "avowal" solely on a statement of Duncan in a letter to American Timken that the main advantage to British Timken under the 1928 business agreement would be "the advice and information to be received from you, the right to use the name 'Timken' and the absence of your competition." (Mem. par. 121, R. 995).

not terminated and that they were properly based upon the license of the trademark "Timken" to British Timken, as well as patents (Pltf's. Exh. 173, R. 1683; offered, R. 949, 950).[41] The statement contained in the letter from Duncan to American Timken in 1927 upon which the district court so heavily relied, *supra* note 40, was entirely consistent with this prior opinion by American Timken's American trademark counsel in 1924 and, in fact, expressed the same point of view. Obviously, when they were referring to "the absence of your competition," counsel were speaking of the absence of competition which would result from the continuance of the license agreements based, as they were, upon the license of the trademark "Timken," both in 1925, and later in the 1928 business agreement pursuant to the provision therefor in the 1927 Heads of Agreement.

The district court also disregarded evidence that American Timken received in 1926 an opinion from British trademark counsel (Deft's. Exh. 99, R. 2005; offered, R. 594) in which they stated that the 1925 amendments to the 1909 license agreements clearly licensed the use of the trademark "Timken" and therefore supported the provisions for payment of royalty (R. 2007).[42]

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[41] The trademark counsel stated in part (R. 1683):

"* * * Judging from your letter, Mr. Lothrop seems to have in mind that the patent lawyers will undertake to pass on the extent of legal protection afforded to the British licensee by the several British patents with a view to determining the justice of the British Company's claim to a reduction of its royalty. *The defect in this proposition is that it wholly overlooks the trademark license, that is to say, the great value to the British Company of the right to use the word 'Timken' on its products and the further great right of excluding you from competition with it.*"

[42] Counsel stated (R. 2007):

"With regard to the question of royalties, it is clear that so long as the English Company continues to make bearings according to the methods covered by the later patents which

(Continued on following page)

Regardless of the validity of a license of the trademark to support the restraints imposed by the 1909 license agreements as amended in 1925, therefore, American Timken clearly acted upon the advice of counsel, and the fact that the agreements were extended does not give rise to a valid inference that the territorial restraints were intentionally extended until 1929, without any legal basis, and merely for the purpose of combining to restrict competition, as concluded by the district court. This, of course, constitutes one of the main questions involved in the case at bar, argued Section II, *supra*, and the district court itself stated that whether "Within the provisions of the Sherman Act commerce may be restrained to the extent that it is reasonably ancillary to protect a trademark has not been decided or discussed by the courts" (Mem. par. 192, R. 1011).

If the law is not settled at this late date, American Timken can hardly be charged with *intentionally* conspiring with British Timken in 1924 because it extended patent and trademark license agreements after the basic patents had terminated.

How could the district court's entire decision be otherwise than completely erroneous, when it is entirely based on this fundamental proposition that in 1924 the 1909

(Continued from preceding page)

are still in force, royalties are payable upon all bearings so made.

"Bearings which are not protected by any subsisting Patent would not in our opinion have been 'made under this agreement' within the meaning of Clause 7(4) of the Principal Agreement, had that agreement remained unmodified. The subsequent agreements do not in terms alter the basis of royalty payment except as regards amount; *but the agreement of January 1925 does make the use of the name 'Timken' as between the parties a matter of contract deemed to be the subject of a license and we are upon the whole of the opinion that reading the agreements together the effect is that the English Company is liable to pay royalties on all bearings sold as 'Timken' Bearings.*"

license agreements were extended without legal justification, thus evidencing an *intention* to suppress competition—a proposition entirely unsupported by evidence, and contrary to the only evidence in the record, which showed that the parties *intended* a *legal* trademark license recommended by their legal counsel?

4. The District Court's Findings that the Three Timken Companies Had Combined to Control the Alleged Tapered Roller Bearing Industry, from 1928 and Thereafter, by Stifling Competition of Outsiders, or Combining With Them, Are Clearly Erroneous.

Analysis of the facts relied upon by the district court as proving the appellee's charges demonstrates clearly that they do not support the court's findings as to conspiracy.

The district court found that the parties adhered to their contractual obligations to maintain exclusive territorial divisions as among themselves (Mem. par. 70, R. 972), and that each of them refused orders for shipment outside of its territory, referring them to the company in whose territory they were to be used (Mem. par. 71, R. 973). The court pointed to the fact that in 1929 American Timken, instead of filling an order from Ford for its Cork, Ireland plant, arranged for sale of the bearings by British Timken and shipped bearings to it to fill the order (Mem. par. 73, R. 973). This, of course, was in accordance with the basic policy of the joint enterprise.

A substantial part of the court's memorandum (Mem. pars. 74-85, R. 974-983), was devoted to a discussion of the situation created in 1939 and 1940 by England's entering World War II with the resultant inability of British Timken to handle demands for bearings in its territory expeditiously, due, apparently, to the great demand for them in England. American Timken reminded its employees of its arrangements with its "British and French associates" (Mem. pars. 74-76, R. 974-976) instructing them that it had

made arrangements to handle some small orders direct, but that it was still the policy of the company to persuade prospective customers that its "British and French associates are both able and eager to supply their foreign requirements and that they manufacture a product comparable in every way to our own" (Mem. par. 76, R. 976). Employees were told they could quote a 50% discount from its list price on standard bearings and pay a 5% commission on the net sale thereof to British Timken (Mem. par. 75, R. 975). While the court characterized this as a protective discount policy which insured the parties against competition from each other in replacement bearings because American Timken sold at a 70% discount for export in its own territory but quoted a 50% discount from the American list price on standard bearings in response to unsolicited inquiries from British Timken's territory (Mem. par. 88; R. 985), the uncontroverted evidence shows that this arrangement as to the 50% discount on quoting prices in British Timken's territory was an arrangement which resulted from American Timken's demonstrating to Dewar in 1927 that British Timken's discount on this business was not large enough to meet competition, which caused British Timken to adopt American Timken's discount at that time, 50% from list price (R. 367).

The district court's finding that this system resulted in a serious interference with Australian war production due to British Timken's inability to supply bearings was based upon letters, and not testimony, of British Timken's technical engineer (Mem. par. 80; R. 979) in Australia and its distributor there (Mem. pars. 81, 82, 83; R. 980). As soon as this matter was called to American Timken's attention arrangements were made within a period of months for it to handle business directly in the Australian territory for the duration of the war (Mem. par. 78; R. 979), which is another example of the cooperation between American Timken and Dewar in the operation of their joint enter-

prise. American Timken also advised representatives of the Australian Government that it would not consider building a bearing manufacturing plant in Australia in part because that country was under the jurisdiction of British Timken, but equally because it would be almost impossible to get delivery on any machine tools suitable for the manufacture of anti-friction bearings and no bearing manufacturer had access to machinery which could be shipped to Australia (Mem. pars. 86, 87; R. 983, 984), although it offered to take the matter up with Dewar (Pltf's. Exh. 118, R. 1527; offered, R. 196; R. 1528). Actually the decision of what was to be done in the war effort in Australia was a governmental decision. It is well known that Europe was made the main theater of operation.

The district court stated that the provisions in the 1935 and 1938 business agreements between American Timken and British Timken as to sales in Russia were carried out to the letter (Mem. par. 94; R. 986), although this statement is not supported by any evidence and is contrary to the only evidence in the record, which is, in substance, that this provision was inserted to prevent the state-controlled Russian buying agencies from causing the Timken companies to bid against each other, but that those agencies never sought quotations from American Timken and British Timken on the same business at any time (R. 898, 899).

The district court found that American Timken, British Timken and French Timken construed the contractual obligations for the interchange of information as to manufacture of bearings and of all inventions and discoveries, whether patented or not, as being for their exclusive mutual benefit, because in 1932 American Timken, which had given its big customer, Ford, a license to manufacture bearings under its United States patents, advised Ford that it could not give Ford a similar license in England under its British patents because British Timken was its exclusive licensee (Mem. par. 95; R. 987). Apparently, it is this one instance of the operation of the exclusive pat-

ent license given by American Timken to British Timken, as it had a right to do, upon which are based the elaborate provisions of the district court's final judgment, which prevent American Timken from giving patent licenses, know-how, machines, and material to British Timken or French Timken unless they are also made available to any third parties in the world who desire them.

The district court's important finding that American Timken, British Timken and French Timken "cooperated to shut out the competition of other dealers in tapered roller bearings" (Mem. par. 97; R. 987) was based upon evidence which disclosed, merely, the nature and purpose of the joint enterprise between American Timken and Dewar. This evidence showed that the three companies have considered SKF as "a common enemy," and that their general policy has been that if a tapered roller bearing is sold it must be by a manufacturer of Timken bearings (Mem. par. 99; R. 989), that if customers in British Timken's territory insisted on buying bearings from American Timken they would be permitted to do so "in order to combat competition" (Mem. par. 100; R. 988); that American Timken desired to help Dewar in every way possible during World War II by keeping Timken bearings to the front since it knew "how difficult it is to eradicate a competitor in foreign fields after he once gets a start" (Mem. par. 101; R. 988); and testimony of one of American Timken's executives that it was willing to sell bearings at a loss, if necessary, to compete with SKF in Australia and the East Indies during World War II (Mem. par. 102; R. 988, 989).[43] *In fact, there was no evidence that American Timken ever engaged in unfair competition, such as selling bearings below cost, in competition with SKF and other*

[43] W. Robert Timken testified that American Timken would have sold bearings at below cost because it considers SKF's competition unethical in that American Timken is of the opinion that SKF sells at prices below its costs to "freeze out competitors" (R. 925, 926).

competitors. Expressions such as "eradicating" competitors, "keeping them out," and "combatting" competition were used in the sense of preventing competitors from obtaining business by ordinary competitive methods (R. 563, 564; 934, 935).

The district court found that American Timken and British and French Timken sold bearings to each other on a most favorable basis to "supplement the plan of strict compliance with the allocated areas and to protect themselves from competition by outsiders" (Mem. 103; R. 989, 990), and in support of this finding quoted portions of correspondence which showed that in 1929 American Timken suggested that British Timken supply bearings for its industrial requirements in Canada due to the tariff situation, and Dewar replied that he would love to help American Timken compete with SKF in Canada because he wanted "to take every possible step we can to keep SKF out of the taper roller bearing business everywhere." Dewar testified that he meant that this should be done by "underquoting them in price" (R. 161). The district court stated that in 1939 American Timken made a similar suggestion as a means of "putting a club over the head" of SKF which was making price reductions far below those which American Timken had ever extended in the United States, Canada, and foreign countries such as Japan and South America (Mem. par. 103; R. 989). British Timken was willing to consider the matter, but thought it unlikely that it could help (Pltf's. Exh. 100; R. 1478; offered, R. 179).

The district court stated that American Timken and British Timken "made certain that the alloy steel made by defendant, especially adapted for the manufacture of bearings, was not made available for use by their competitors" (Mem. par. 104; R. 990), and cited one exchange of correspondence in 1934 in which Dewar expressed reluctance to have American Timken's tubing sold to British Timken's

competitors in its territory, and Hess assured him that nothing would be done which might harm any of the three Timken companies (Mem. par. 105; R. 990). The court made no mention of uncontroverted testimony that American Timken sells its steel to its competitors who manufacture ball and roller bearings and gives them instructions in connection with its use (R. 72-74).

The district court devoted considerable attention to the fact that British Timken and French Timken had entered into agreements with their competitors abroad to share information and to stabilize prices, and that discussions were had concerning prices between American Timken, British Timken and their foreign competitors (Mem. pars. 106-115; R. 991-994).

With respect to discussions of prices which took place in 1932 and prior years (Mem. pars. 108, 109; R. 991, 992), the uncontroverted evidence discloses that they were contemporaneous with arrangements made between British Timken and SKF in England and discussed with Spray and Hess of American Timken after they had been made. At this time the Timken companies and SKF were discussing a proposal by the latter that "the SKF Swedish company should buy the American Timken company's interests in Europe, and that The Timken Roller Bearing Company in United States should purchase the SKF's interests in that continent" (R. 207). Thus, in Plaintiff's Exhibit 73 (R. 1455; offered, R. 159), Dewar in 1932 stated that he hoped "you will be able to come to a decision soon regarding SKF. I am on the verge of a real row with them in this country," that he had agreed that "pending all these discussions—which have now been going on for a year—we would let them have motorcycle bearings provided they would not interfere with our large motorcycle bearing business" (R. 1456), but that SKF had not abided by this arrangement, and he testified that these references were to this then pending transaction (R. 206, 207). In

Plaintiff's Exhibit 61 (R. 1411; offered, R. 138), Dewar, in 1932, discussed cable correspondence as to comparing American Timken's Canadian prices with those of SKF, referred to the fact that during Hess' visit in 1932 "he told us of certain events on your side of the water," and said that as a result of this information he was attempting to negotiate "an arrangement with SKF to cover orders placed by Ford-Dagenham" (R. 1411, 1412).

Dewar testified that SKF had made the proposal for this world-wide deal, and that "nothing came of it. It dragged on for a year or more and in the end it was turned down flatly by Mr. H. H. Timken" and his financial adviser (R. 207).

Thus, the uncontroverted evidence is that price discussions with SKF occurred in connection with a proposed much larger transaction with SKF which, if entered into, would really have divided up the world. American Timken rejected it.

With respect to agreements with foreign competitors by British Timken and French Timken, while there were such with SKF with respect to England and France until the commencement of World War II in 1939,[44] nevertheless, as the district court found (Mem. par. 110; R. 992) American Timken was not a party to the English and French agreements.

It was merely advised of the English agreement by Hess' correspondence with Dewar, and talks with the latter on the former's trips to England (R. 144, 145).

The first French agreement was made by Dewar with several French manufacturers of anti-friction bearings,

[44] Plaintiff's Exhibit 71 (R. 1453; offered, R. 159) shows that British Timken also had an arrangement with RIV, the Italian bearing manufacturer, as to Russian business, which, however, lasted only six or seven months in 1931 (R. 157). An agreement between British Timken and Bock in 1929 (Pltf's. Exh. 72; R. 1455; offered, R. 159) was so temporary that Dewar did not even recollect its terms (R. 159).

SKF, RIV, SRO, and M & B, apparently without prior consultation with American Timken, to commence July 1, 1932, and to continue for eighteen months. French Timken was given 7% of total French anti-friction bearing business as its quota in 1932, to be limited to 10,000,000 francs, with a guarantee of 80% of its 1932 business for 1933 (Pltf's. Exh. 51, R. 1397; offered, R. 133). This resulted in French Timken's being able to obtain some of the Citroen business which it had lost (Pltf's. Exh. 59, R. 1409; offered, R. 138), but did not interfere with its production, since it exceeded its quota in 1932 (Pltf's. Exh. 60, R. 1409; offered, R. 138; Pltf's. Exh. 63, R. 1416; offered, R. 145; 1431). The renewal of the French agreement was submitted for American Timken's consideration prior to execution thereof (Pltf's. Exh. 65; R. 1436; offered, R. 146). Although American Timken preferred to postpone this matter for another six months, Hess advised Dewar that if he considered "this impossible we go on with you in your judgment. Would suggest two year agreement" (Pltf's. Exh. 70; R. 1453; offered, R. 156). Hess had nothing to do with negotiating this agreement, and American Timken raised no objection to it because Dewar was considered the "managing partner" of British, French and German operations (R. 666).

This agreement did not interfere with exports by American Timken to France because French Timken was continuously exceeding its quota, which indicates that the agreement did not interfere with its production. Dewar testified that in his opinion none of these agreements could have had the effect of restricting exports from, or imports into, the United States of tapered roller bearings (R. 207, 208).

That these cartel agreements were not entered into by British Timken and French Timken for the purpose of rounding out a combination to dominate the mythical tapered roller bearing industry is demonstrated by the circumstances under which the agreement between French

Timken and French SKF was made. As previously seen, in 1929, Citroen, the largest French automobile manufacturer, gave French Timken its bearing business which resulted in a need for great expansion of French Timken. Unfortunately, Citroen a year or two later "fell on rather evil days and the SKF company in Sweden financed them" partly on condition that Citroen use SKF bearings exclusively (Dewar, R. 209). Citroen was compelled to cease placing any orders with French Timken, which left it with practically no orders at all, and Dewar "felt that it was better for us to have some arrangement with SKF to keep the French Timken company alive rather than let it die, which it would have done without such an arrangement" (Dewar, R. 209).

In any event, these agreements terminated at the beginning of World War II in 1939, and have never been renewed (R. 208).

Thus, the evidence relied upon by the district court, substantially all of which was documentary, when examined in the light of all the facts, does not support the court's conclusion that American Timken, British and French Timken had combined to "stifle" all competition between them, and "to stifle or suppress competition of other manufacturers by joint effort against them or agreement with them" (Mem. par. 119, R. 995).

IV.

THE DISTRICT COURT ERRED IN NOT MAKING PROPER FINDINGS OF FACT, SEPARATELY FOUND, AND CONCLUSIONS OF LAW, SEPARATELY STATED, AS REQUIRED BY RULE 52 OF THE RULES OF FEDERAL PROCEDURE.

As previously seen, the district court overruled American Timken's motion to require the appellee to file proposed findings of fact and conclusions of law in accordance with its Rule 4B, entered an order adopting its memorandum as its findings and conclusions, and overruled American Timken's motion at the end of the case that it make new, and additional, findings and conclusions by adopting those submitted therewith.

Federal Rule of Civil Procedure 52(a) requires that in all actions tried upon the facts without a jury, as was the case at bar, "the court shall find the facts specially and state separately its conclusions of law thereon and direct the entry of the appropriate judgment." This command was present also in the predecessor Equity Rule 70½ and is likewise contained in Admiralty Rule 46½ (28 U. S. C. fol. Sec. 723c). By an amendment which became effective March 19, 1948, the text of Rule 52(a) was amplified by adding the language: "If an opinion or memorandum of decision is filed, it will be sufficient if the findings of fact and conclusions of law appear therein."

The provision added by the recent amendment does not in terms purport to change this Court's substantive requirements as to the nature and scope of the findings and conclusions required in complying with Rule 52(a), but rather merely permits the use of such an opinion or memorandum of the trial court as a vehicle for compliance if the special findings and separate statement of the conclusions of law otherwise required by the rule are contained therein.

The decisions of this Court as to the substantive requirements as to findings and conclusions are that (1) there must be specific findings of all of the underlying and sub-

sidiary facts which must be found in order to determine all the issues which the case presents; (2) a discussion of portions of the evidence and the court's reasoning in its opinion do not constitute such findings; and (3) statements of fact mingled with reasoning and inferences do not meet the requirements of the rule, *Interstate Circuit, Inc. v. United States*, 304 U. S. 55; *Kelly v. Everglades Drainage District*, 319 U. S. 415; *Schneidermann v. United States*, 320 U. S. 118; *Mayo v. Lakeland Highlands Canning Co.*, 309 U. S. 310. See particularly *United States v. Aluminum Company of America*, 2 F. R. D. 224 (D. C., N. Y., 1941), in which the court denied the prevailing party's request that it adopt its opinion as its findings and conclusions, for this reason (p. 231).

When the district court's memorandum is examined in the light of the foregoing cases, it is apparent that, although it performs the function and purpose of an opinion, it does not constitute nor include the findings of fact and conclusions of law required by Rule 52(a).

First, the memorandum does not contain complete underlying and subsidiary findings on several important matters which are essential to a determination of "all the issues in the case." Among these, are the facts as to competition among all types of anti-friction bearings in substantially every type of installation; the insignificant volume of foreign trade in anti-friction bearings and the reasons therefor during the years in question; the inability of American manufacturers to export bearings on a commercially successful basis and the resultant necessity of establishing foreign affiliated corporations to manufacture and market bearings locally; the inability of foreign manufacturers to import bearings into the United States on a commercially successful basis; the relations between American Timken and Vickers' subsidiaries, other than those purely contractual; the underlying reasons for American Timken's acquisition of British Timken in conjunction with Dewar,

and the various steps taken by them to effectuate the arrangement between them and to preserve their control of and their respective interests in the European enterprises; the various phases of the basic plan of American Timken and Dewar to secure the integrated production and sale of Timken bearings throughout the world, including the extensive furnishing by American Timken of production and selling know-how to British Timken and French Timken; the circumstances attending the so-called "cartel" agreements between British Timken and French Timken and SKF and the absence of any intention thereby to affect, and of any actual effect upon, foreign commerce of the United States; and the extent of American Timken's rights in the trademark "Timken," and the problem of retaining such rights in view of adverse rules of foreign law relating to registration of trademarks, and American Timken's attempt to solve such problems by contractual provisions with British Timken and French Timken.

Second, the memorandum contains much discussion of, and quotation from, portions of the evidence as to various matters, and the court's reasoning with respect thereto. See, for example, the detailed treatment of the Australian situation during World War II (R. 977-985), of the SKF situation (R. 988-990), and of the foreign cartel arrangements (R. 991-994).

Third, such statements of fact and conclusions of law as are contained in the memorandum are not stated separately in many instances, but must be gleaned from an examination of its entire 60 pages (R. 958-1018). Many statements of fact are embedded in the district court's reasoning and argument, by which its ultimate conclusions are reached.

In short, the memorandum does not comply with the substantive requirements established by this Court with respect to findings of fact and conclusions of law under Rule 52(a).

V.

THE FINAL JUDGMENT OF THE DISTRICT COURT IS ERRONEOUS, BEYOND ITS JURISDICTION, EXCEEDS THE PERMISSIBLE LIMITS OF THE DISCRETION CONFERRED UPON IT, AND DEPRIVES AMERICAN TIMKEN OF ITS PROPERTY WITHOUT JUST COMPENSATION AND WITHOUT DUE PROCESS OF LAW CONTRARY TO THE FIFTH AMENDMENT OF THE CONSTITUTION OF THE UNITED STATES.

The jurisdiction of the district court to take action in this case is conferred by Section 4 of the Sherman Act (26 Stat. 209, § 4, 15 U. S. C., § 4) which provides that that court is vested "with jurisdiction to prevent and restrain violations of this Act." Certain of the provisions contained in the district court's final judgment are erroneous, beyond the jurisdiction conferred by Section 4 of the Sherman Act, exceed the permissible limits of the discretion conferred upon the court, or deprive American Timken of its property without just compensation and without due process of law in the following respects.

1. The Injunction Against Assignment, License, Receipt or Transfer of Patents, Know-How, Material, Machinery, and Trademark or Name "in Such a Way as to Deny Any Third Person Access Thereto" is Erroneous.

Section V of the final judgment, subsections G and H [45] (R. 1175, 1176), and Section VII, subsections A, B, C, and

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[45] "V. Defendant is hereby enjoined and restrained from entering into, performing, adopting, adhering to, maintaining or furthering, directly or indirectly, or claiming any rights under, any combination, conspiracy, contract, agreement, arrangement, understanding, or concerted plan of action with British Timken, French Timken, or any subsidiary, successor, assign, agent, sales representative or distributor thereof; * * *

"G. To receive, grant, disclose, render available or exchange, in such a way as to deny any third person access

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7 and 8[46] (R. 1177-1179) enjoin American Timken from granting *exclusive* patent assignments or licenses, know-how, machinery and material used in the production of anti-friction bearings to British Timken, French Timken and the other parties named, and also prevent it from granting the same to those parties in exchange for *exclusive* grants and transfers of patent licenses, know-how, machinery and material to any entity whatsoever, including American Timken, but not limited thereto, by preventing such transfers "in such a way as to deny any third person access thereto."

This was done in the face of the district court's statement in its memorandum (Mem. par. 137, R. 1000) that

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(Continued from preceding page)

thereto, any assignment, license or grant of immunity under a patent or patent application, relating to anti-friction bearings;

"H. To receive, grant, disclose, render available or exchange, in such a way as to deny any third person access thereto, (1) information, advice, assistance or rights with respect to any invention, discovery, improvement, practice, formula, pattern, device, process, method, or other technical information, relating to the production of anti-friction bearings, or (2) any material or machinery used in the production of anti-friction bearings, or any information, advice, assistance or rights with respect to any such material or machinery."

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[46] "VII. Defendant is hereby enjoined and restrained from entering into, performing, enforcing, adhering to, maintaining, furthering, or renewing, directly or indirectly, any contract, agreement, combination, understanding or arrangement with British Timken and/or French Timken, or any subsidiary, successor, assign, agent, sales representative or distributor thereof which provides for:

"A. An assignment, license or grant of immunity under any patent or patent application;

"B. The receipt, grant, disclosure, rendering available or exchange of information, advice, assistance or rights with respect to any invention, discovery, improvement, practice, formula, pattern, device, process, method or other technical information relating to the production of anti-friction bear-

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"There is no charge made in the complaint that the parties engaged in the practice of exclusively exchanging present and future know-how and inventions, patented or unpatented," and the further rather puzzling statement that "*Although it does not convincingly appear* that *either the exclusive exchange of know-how* or the enforcement of the trademark restrictions alone served as direct instruments to eliminate competition, they have been most helpful in buttressing other illegal conduct to achieve the desired result." If it did not appear that the exclusive exchange of know-how was used as a direct instrument to eliminate competition, it is difficult to see how, in any respect, it could have assisted in carrying out the alleged combination.

Since it was not alleged that the exclusive exchange of patents, know-how, materials and machinery constituted

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ings, or of any material or machinery used in the production of anti-friction bearings, or of any information, advice, assistance or rights with respect to any such material or machinery; or

"C. The transfer of any right or immunity under a trade mark or name, relating to the production of anti-friction bearings, * * *

upon the condition or requirement that British Timken and/or French Timken, or any subsidiary, successor, assign, agent, sales representative or distributor thereof shall: * * *

"7. receive, grant, disclose, render available or exchange, in such a way as to deny any third person access thereto, any assignment, license or grant of immunity under a patent or patent application, relating to anti-friction bearings;

"8. receive, grant, disclose, render available or exchange, in such a way as to deny any third person access thereto, (a) information, advice, assistance, or rights with respect to any invention, discovery, improvement, practice, formula, pattern, device, process, method, or other technical information relating to the production of anti-friction bearings, or (b) any material or machinery used in the production of anti-friction bearings, or any information, advice, assistance or rights with respect to such material or machinery;"

part of the means by which the alleged combination in restraint of trade was carried out, the district court should not have dealt with these matters in its decree. In *United States v. National Lead Company*, 332 U. S. 319, this Court, in denying the Government's prayer that the two defendants be required to divest themselves of certain manufacturing plants said (p. 351), that "There is neither allegation in the complaint nor finding of fact" that the physical properties of the defendants had been acquired or used in violation of the Act. See also *De Beers Consolidated Mines, Ltd. v. United States*, 325 U. S. 212, in which this Court held that a preliminary injunction could not properly be granted, partly because "it deals with a matter lying wholly outside the issues in the suit" (p. 220), and *Hartford Empire Company v. United States*, 323 U. S. 386, in which this Court, in holding erroneous a provision in the decree which required the defendants to license their patents royalty free stated that the Government had not attacked the validity of any patent (p. 414), thus expressing the thought that, as validity of the patents was not in issue, it was improper to treat them as though they were invalid by destroying their value to the owners.

In any event such a provision amounts in effect to confiscation of the defendant's property without due process of law. In *Hartford Empire Company v. United States*, 323 U. S. 386, paragraph 51 of the district court's decree, completely analogous to that under discussion, enjoined each defendant from acquiring, otherwise than through direct issue from the patent office, any patent application, or exclusive rights thereunder, covering any invention embodied or employed in a machine or used in glassware manufacture, except non-exclusive rights or patents on inventions of its employees (pp. 430, 431). This court stated (p. 431) that this provision "seems to prohibit the acquisition of any patent, or of a *restricted* license under any pat-

ent by any defendant. In this respect the paragraph is inappropriate to restrain future violations of the anti-trust laws. The paragraph should be deleted." Confiscation of patents by free licensing, or by provisions against taking or granting exclusive licenses, was denied for the reasons set forth by this court in striking paragraph 24 of the decree (p. 413) with respect to which this court recognized the existence of a constitutional question when it stated (p. 413):

> "That a patent is property, protected against appropriation both by individuals and by government, has long been settled. In recognition of this quality of a patent the courts, in enjoining violations of the Sherman Act arising from the use of patent licenses, agreements, and leases, have abstained from action *which amounted to a forfeiture of the patents.*"

In *United States v. National Lead Company*, 332 U. S. 319, this court in denying the Government's request for a provision for compulsory licenses of the defendant's patents, free of royalties (p. 355), again recognized the existence of a constitutional question in this connection when it said (p. 349):

> "*We do not, in this case, face the issue of the constitutionality of such an order.* That issue would arise only in a case where the order would be more necessary and appropriate to the enforcement of the Antitrust Act than here. * * *"

With respect to know-how, the same objections apply. In *Hartford Empire Company v. United States*, 323 U. S. 386, *supra*, paragraph 24(c) of the judgment required the defendants to make available to any licensee under the compulsory licenses of patents provided for therein all drawings or patterns "relating to the machines or methods used in the manufacture of glassware" embodied in the licensed inventions (p. 413). The Court ordered this paragraph to be deleted without comment (p. 418). In *United States v.*

National Lead Company, 332 U. S. 319, *supra*, this Court denied the Government's request for a provision requiring the defendants to furnish to any applicant, at a reasonable charge, technical information desired by the applicant relating to the processes for manufacturing titanium pigments (pp. 353, 359).

It is obvious that this provision, which impairs American Timken's right to grant or receive exclusive patents, know-how, materials, and machinery, confiscates property rights of American Timken to the same extent and in the same way as that by which such a provision confiscates patent rights. Therefore, such relief was erroneous for the same reasons as those which motivated this Court in condemning confiscation of patents in the *Hartford Empire* and *National Lead* cases.

2. The Injunction Against American Timken's Agreeing With British Timken, French Timken or Any Subsidiary, Successor, Assign, Agent, Sales Representative, or Distributor Thereof to Fix, Maintain or Adhere to Prices or Other Terms and Conditions of Sale or Resale of Anti-friction Bearings in the United States is Erroneous.

Section V of the district court's final judgment [47] (R. 1175, 1176) enjoins American Timken, in substance, from

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[47] "V. Defendant is hereby enjoined and restrained from entering into, performing, adopting, adhering to, maintaining or furthering, directly or indirectly, or claiming any rights under, any combination, conspiracy, contract, agreement, arrangement, understanding, or concerted plan of action with British Timken, French Timken, or any subsidiary, successor, assign, agent, sales representative or distributor thereof: * * *

"F. To fix, maintain or adhere to prices or price ranges, or other terms and conditions of sale or resale of anti-friction bearings produced by defendant for sale or other distribution in any territory or market, or produced by any other person for sale or other distribution in the United States."

agreeing with British Timken, French Timken, or any subsidiary, successor, assign, agent, sales representative or distributor thereof to fix, maintain or adhere to prices or price ranges or other terms and conditions of sale or resale of anti-friction bearings produced by American Timken or by any other person for sale or other distribution in the United States. Section VII [48] (R. 1177, 1178) prohibits American Timken from agreeing with the same persons for the transfer of know-how, machinery or material upon the condition or requirement that such person maintain or adhere to fixed prices or price ranges or other terms or conditions of sale or resale of anti-friction bearings (subparagraph 6, R. 1178). The injunction is perpetual in this respect, as in others.

These provisions deny to American Timken rights, which it would otherwise have under the Miller-Tydings Amendment to Section 1 of the Sherman Act, 26 Stat. 209,

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[48] "VII. Defendant is hereby enjoined and restrained from entering into, performing, enforcing, adhering to, maintaining, furthering, or renewing, directly or indirectly, any contract, agreement, combination, understanding or arrangement with British Timken and/or French Timken, or any subsidiary, successor, assign, agent, sales representative or distributor thereof which provides for: * * *

> "B. The receipt, grant, disclosure, rendering available or exchange of information, advice, assistance or rights with respect to any invention, discovery, improvement, practice, formula, pattern, device, process, method or other technical information relating to the production of anti-friction bearings, or of any material or machinery used in the production of anti-friction bearings, or of any information, advice, assistance or rights with respect to any such material or machinery; * * *

Upon the condition or requirement that British Timken and/or French Timken, or any subsidiary, successor, assign, agent, sales representative or distributor thereof shall: * * *

> "6. maintain or adhere to fixed prices or price ranges, or other terms and conditions of sale or resale of anti-friction bearings;"

as amended, 50 Stat. 693,[49] to agree with the entities and persons named in these sections of the final judgment upon minimum prices for the resale of the trademarked bearing which it manufactures, and also of trademarked material, such as its steel tubing, and possible trademarked machinery or technical information which it might wish to market in the future. While, at the present time, British Timken and French Timken are manufacturers, although not in competition with American Timken, it would be possible for American Timken to have the same agent, sales representative or distributor as either one of those two companies [50] and to arrange for "fair trading" its product

[49] "Section 1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal: *Provided*, That nothing herein contained shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trade mark, brand, or name of the producer or distributor of such commodity and which is in free and open competition with commodities of the same general class produced or distributed by others, when contracts or agreements of that description are lawful as applied to intrastate transactions, under any statute, law, or public policy now or hereafter in effect in any State, Territory, or the District of Columbia, in which such resale is to be made, or to which the commodity is to be transported for such resale, and the making of such contracts or agreements shall not be an unfair method of competition under section 5, as amended and supplemented, of the Act entitled 'An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes,' approved September 26, 1914: *Provided further*, That the preceding proviso shall not make lawful any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms, or corporations in competition with each other. * * *".

[50] While Section VI of the final judgment prevents American Timken from using British or French Timken or their subsidiaries as agents, sales representatives or distributors, and vice versa, subsections E and F (R. 1177) it does not extend this prohibition to common sales representatives or distributors.

by the latter if it were not for these provisions in the judgment. In *United States v. Bausch & Lomb Optical Co.*, 321 U. S. 707, *supra*, this Court refused to grant a permanent injunction against Soft-Lite by which the Government sought to prevent it from "the execution of resale price maintenance contracts under the Miller-Tydings Act" (p. 729), instead leaving in effect a provision in the judgment which enjoined this practice for six months only. Certainly, in the case at bar, where alleged resale price fixing, if any, played a very minor part, as distinguished from its major importance in the *Bausch & Lomb* case, no more rigorous restrictions should be imposed upon American Timken.

3. The Injunction Against Refusal to Sell Bearings Where the Reason For Such Refusal Is That They Are For Resale or Other Distribution in British or French Territory, and Against Discrimination As to Availability As to Prices, Terms and Conditions of Sale or Failing to Provide Services and Assistance Relating to the Distribution or Use Thereof Comparable to That Made Available to Distributors and Users in American Timken's Territory, Where the Reason For Such Refusal, Discrimination or Failure is That They Are For Use, Resale or Distribution in a Country or Area Other Than American Timken's Territory, is Erroneous.

Section VI, subsection B,[51] (R. 1176-1177) enjoins American Timken from refusing to sell anti-friction bearings to any person at prices and on terms and conditions

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[51] "VI. Defendant is hereby enjoined and restrained from: * * *

B. Refusing to sell anti-friction bearings to any person at prices and on terms and conditions of sale corresponding to those regularly offered to purchasers of the same classification for resale or other distribution in defendant's territory, as herein defined, where the reason for such refusal is that such bearings are for resale or other distribution in British territory or French territory, as herein defined;"

corresponding to those regularly offered to purchasers for resale for distribution in American Timken's territory where the reason for such refusal is that they are for resale or other distribution in British territory or French territory as defined in the judgment.

"British territory," "French territory," and "defendant's territory," respectively, are defined in section 1, G, H and I (R. 1173, 1174), substantially as the territories which are allocated to British Timken, French Timken and American Timken, respectively, by the 1938 business agreements.

Section IX [52] (R. 1179, 1180) contains substantially the same provision with respect, not only to sale and distribution of bearings, but also service and assistance in the distribution or use thereof, where the reason for such refusal is that the bearings are for use, resale or other distribution in some country or area other than American Timken's territory.

Presumably, the purpose of Section VI is to prevent American Timken from refusing to deal with customers in the territories allocated to French Timken and British Timken by the business agreements, and thus to buttress the general provisions in Section V (R. 1175) which enjoin American Timken from combining with British Timken and French Timken to allocate exclusive territory. But, in addition to being unnecessary, this provision goes too far. We believe that, properly interpreted, it does not enjoin

[52] "IX. Defendant is hereby enjoined from refusing to sell antifriction bearings to any person or discriminating as to availability and prices, terms, and conditions of sale of such bearings or failing to provide services and assistance relating to the distribution or use of such bearings comparable to the services and assistance made available to distributors and users of such bearings in defendant's territory, where the reason for such refusal, discrimination, or failure is that such bearings are for use, resale, or other distribution, either in their original form or incorporated in another product, in some country or area other than defendant's territory as herein defined."

American Timken from refusing to deal with any prospective purchaser of bearings because of business reasons, such as lack of financial stability, or any other reasons, such as personal animosity, except the one reason specified, namely, that the purchaser is located in British or French territory. However, even if so interpreted (and it might not be so liberally interpreted by the appellee or the district court in a future enforcement proceeding) the provision still is too broad, and, in fact, is practically unworkable. One hypothetical example should be sufficient to demonstrate this. Suppose that American Timken should decide, from motives of patriotism, that it did not care to sell bearings to purchasers or distributors located in the territory of French Indo-China because of the possibility that they might be incorporated into military equipment to be used by Communists infiltrating that territory; refusal to sell in such case would be, in part at least, for the reason that such bearings were for resale or other distribution in French territory, and also in a country or area other than American Timken's territory, under Sections VI and IX, respectively. American Timken, then, might be forced to sell in that territory, nevertheless.

While it might be urged, plausibly, that the purpose of Section VI, which is limited to sale of bearings, is merely to supplement the provision against combination to allocate exclusive territories with British Timken and French Timken, it is clear that Section IX goes far beyond any such purpose. It requires American Timken, not only to sell bearings, without discrimination as to availability, prices, terms and conditions of sale, but also to provide services and assistance relating to the distribution or use of the bearings comparable to those made available to distributors and users of such bearings in this country, to purchasers for use, resale or other distribution in their original form, or incorporated in another product, in countries outside of its territory. This possibly might be interpreted by the court as requiring American Timken, at tremendous

expense, to set up a system of sales engineers, comparable to that which it maintains in the principal cities of this country, in other countries all over the world in order to render the technical assistance and advice and other service which it gives to customers in this country with respect to original installation business.

One possible purpose of such a provision is to force American Timken into going into foreign trade in the export of its bearings, whether or not it desires so to do.

The Statement demonstrates without question the impracticability of exporting bearings manufactured in this country in an attempt to obtain original installation business, and the consequent 5% resale business which results therefrom, in foreign countries, and yet this may well be the effect of this portion of the district court's judgment.

The jurisdiction of the district court under Section 4 of the Sherman Act "to prevent or restrain" violations certainly does not extend to forcing American Timken to enter into business relations. That section was never intended to permit a court to require compulsory competition for sale by a defendant. This is made certain by the interpretation placed upon the substantive provisions of the Sherman Act by this Court.

Thus, in *United States v. Bausch & Lomb Optical Company*, 321 U. S. 707, *supra*, this Court refused to incorporate a provision in the judgment that Soft-Lite be required to file with the district court a written statement that it would sell its product, without discrimination, to any person offering to pay cash therefor, because as the Court said (p. 728) "*Congress has been liberal in enacting remedies to enforce the anti-monopoly statutes. But in no instance has it indicated an intention to interfere with ordinary commercial practice.*"

In *Hartford-Empire Co. v. United States*, 323 U. S. 386, the Hartford-Empire Company, as appears from the record in that case (R. 7735) asserted that Section 23 of the dis-

trict court's judgment therein violated the Fifth Amendment of the Constitution. This Court pointed out (p. 412) that paragraphs 21, 22 and 23 of the judgment required, *inter alia,* that all of the corporate and individual defendants, if they should engage in the business of distributing glass making machinery, should "file a writing with the court agreeing to offer, and to continue to offer, to sell any machinery used in the manufacture of glassware to any applicant at reasonable and equal prices and upon reasonable and equal terms and conditions" (p. 412). As previously seen, this Court stated that since the provisions of paragraphs 21 to 24, inclusive "in effect confiscate considerable portions of the appellants' property, we think they go beyond what is required to dissolve the combination," and struck down this portion of the judgment. While this Court, on motion to clarify its opinion in *Hartford-Empire Co. v. United States,* 324 U. S. 570, said that Hartford should be required to lease patented machines and license their manufacture, use or sale on reasonable terms (p. 573) nothing was said as to sale thereof by Hartford or the other defendants.[53]

These provisions, which compel American Timken to deal with persons with whom it might not otherwise desire to deal, are contrary, not only to the provisions of Section 4 of the Sherman Act as interpreted by this Court,[54] but

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[53] While section 12A of the final judgment in that case required sale or lease of machines to all applicants, many of the provisions in the final judgment in that case were agreed upon by the parties; see "Compulsory Patent Licensing By Antitrust Decree," 56 Yale Law Journal 77 (1946), 90. We are advised by counsel in that case that this was the case as to section 12A.

[54] In *United States v. Colgate & Co.,* 250 U. S. 300, this Court said (p. 307):

"The purpose of the Sherman Act is to prohibit monopolies, contracts and combinations which probably would unduly interfere with the free exercise of their rights by those engaged, or who wish to engage, in trade and commerce—in a word to preserve the right of freedom to trade. In the absence of any

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also to the Congressional policy exhibited by Section 1 of the Robinson-Patman Act, 49 Stat. 1526, 15 U. S. C. A. § 13, which provides, in part, that nothing therein contained "shall prevent persons engaged in selling goods, wares, or merchandise in commerce from selecting their own customers in bona fide transactions and not in restraint of trade."

4. The Injunction Against American Timken's Entering Into Any Agreement With British Timken or French Timken For the Transfer of Any Right or Immunity Under Any Trademark or Name Relating to the Production of Anti-friction Bearings, Upon the Conditions Forbidden, Is Erroneous.

The district court dealt with licensing the trademark in Section VII, subsection C, subparagraphs 1, 2, 4, 5 and 8 (R. 1178-1179). This paragraph of the decree enjoined American Timken from entering into, maintaining or re-

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purpose to create or maintain a monopoly, *the act does not restrict the long recognized right of trader or manufacturer engaged in an entirely private business, freely to exercise his own independent discretion as to the parties with whom he will deal."*

See, also similar expressions in *Federal Trade Com. v. Raymond Bros.-Clark Co.*, 263 U. S. 565; *Moore v. N. Y. Cotton Exchange*, 270 U. S. 593 (1926), 606; *Brosious v. Pepsi-Cola Co.*, 155 F. (2) 99 (CCA 3, 1945); *Johnson, et al. v. J. H. Yost Lumber Co., et al.*, 117 F. 2d 53 (CCA 8, 1941) 61; *Lipson v. Socony-Vacuum Corp.*, 76 F. 2d 213 (CCA 1, 1935); *Hart v. B. F. Keith Vaudeville Exchange, et al.*, 12 F. 2d 341 (CCA 2, 1926); *United States v. Parker Rust-Proof Co.*, 61 F. Supp. 805 (D. C. Mich., 1945), 812; *Sorrentino v. Glen-Gary Shale Brick Corp.*, 46 F. Supp. 709 (D. C. E. D. Pa., 1942); *United States v. Schine Chain Theatres, Inc., et al.*, 31 F. Supp. 270 (D. C. N. Y., 1940); *Abouaf v. Spreckels Co.*, 26 F. Supp. 830 (D. C. N. D. Cal., 1939) 832; *Union Pacific Coal Co. v. United States*, 173 F. 737 (CCA 8, 1909).

Moreover, the Sherman Act "does not compel competition," *United States v. U. S. Steel Corporation*, 251 U. S. 417, 451; *United States v. General Dyestuff Corp., et al.*, 57 F. Supp. 642 (D. C. S. D. N. Y., 1944); *United States v. Aluminum Co. of America*, 44 F. Supp. 97 (D. C. S. D. N. Y. 1941), (Syl. 54).

newing with "British Timken and/or French Timken, or any subsidiary, successor, assign, agent, sales agent or distributor thereof" any contract for:

> "C. The transfer of any right or immunity under a trade mark or name, relating to the production of anti-friction bearings,

"upon the condition or requirement that British Timken and/or French Timken, or any subsidiary, successor, assign, agent, sales representative or distributor thereof shall:

"1. allocate or divide territories or markets for the production, sale or other distribution of anti-friction bearings;

"2. limit, restrain or prevent importation into or exportation from the United States of anti-friction bearings;

* * * * *

"4. refrain from competing or leave any person free from competition in the production, sale or other distribution of anti-friction bearings in any territory or market;

"5. exclude any producer or distributor from any market for anti-friction bearings, or interfere with or restrict any producer or distributor in competing in any such market;

* * * * *

"8. receive, grant, disclose, render available or exchange, in such a way as to deny any third person access thereto, (a) information, advice, assistance, or rights with respect to any invention, discovery, improvement, practice, formula, pattern, device, process, method, or other technical information relating to the production of anti-friction bearings, or (b) any material or machinery used in the production of anti-friction bearings, or any information, advice, assistance or rights with respect to any such material or machinery."

It is obvious that these provisions in the judgment are directly contrary to recognized authority in this country on

the subject of licensing a mark. They restrict American Timken with respect to the trademark in several ways which deny it rights which it would otherwise have under the recognized law. However, the district court did not find nor hold that the Timken companies had used the trademark in such a way as to justify denial to American Timken of these rights. The only statement which the district court made remotely touching on the use of the trademark was that "although it does not convincingly appear that * * * the enforcement of the trademark restrictions served as direct instruments to eliminate competition, they have been most helpful in buttressing other illegal conduct to achieve the desired result" (Mem. par. 137, R. 1000). The district court did not specify in what way their enforcement has been helpful in buttressing the alleged combination, and it is impossible to see how they could have assisted in carrying it out if, as the court stated, it did not appear that the trademark was used as a direct instrument to eliminate competition. Therefore, there is no justification for denying to American Timken its customary rights with respect to use of its trademark.

We have shown heretofore that the allocation of territory in connection with a manufacturer's mark is a recognized part of the ownership of a mark and yet subparagraph 1 clearly does violence to that principle.

Subparagraph 2 is equally erroneous, for its effect is to require the licensor of a trade-mark as a condition of a foreign license to permit the foreign licensee to use the same mark in the United States that the licensor owns in the United States. American Timken is the owner of the mark "Timken" in the United States, and the effect of the Court's judgment is that, if it grants a license of the mark in any foreign country in which it owns the mark to the parties specified, it must provide that the licensee have a license to use the mark in the United States as well. There is certainly no authority for this view of the licensing of trademarks.

If the cases to which we have referred are the law, obviously this provision of the decree injects into the licensing field a matter that is unsupported by the statutes and decisions of the courts in this country. From a practical standpoint, no American company would wish to license a mark abroad if the penalty for so doing is the requirement that it give a license to its licensee to use the mark in the United States.

This section likewise makes it unlawful for an American company to give an exclusive license to one or more foreign licensees in foreign countries without reserving to the American company the right to use the mark in competition with the licensee. In short, this portion of the judgment, as does the quoted subparagraph 4, prevents an American licensor from giving an exclusive license and for practical purposes this would in most instances destroy the value of licensing a trade-mark abroad, since any proposed licensee of a manufacturer's mark would hesitate before undertaking the investment in manufacturing equipment necessary for the installation of a plant to make the product covered by the trade-mark.

Subparagraph 5 embraces the same idea as do the other subparagraphs in that it makes it unlawful for an American licensor to exclude the licensee from any market for anti-friction bearings. This provision is another method of destroying the right to grant an exclusive trade-mark license. The effect of it is that American Timken by granting a license in one country to a licensee, must of necessity grant a license in every country in which it has ownership of the mark, despite the fact that it may have other licensees in other countries. To put the matter concretely, having granted a license to British Timken to use the mark in England and a similar license to French Timken to use the mark in France, the requirement of subparagraph 5 is that a license must be granted to British Timken in the area covered by the French Timken license and conversely

French Timken must be granted a license to use the mark in the area covered by the British Timken license. More than that, in the other sections of the world where American Timken has ownership of the mark, this requirement of the decree would make it obligatory upon the company to grant licenses to both licensees for the entire world. This proviso in the judgment makes absolutely meaningless the provisions of the international conventions heretofore quoted, the provisions of the Lanham Act, and the numerous decisions of this and other courts as to trademark licenses.

By subsection 8 the district court provided that, if American Timken supplied any technical information as to the product covered by the trade-mark or machinery for the manufacture of that product to its licensee, the same information must be made available to any third person. Certainly there is no authority for the inclusion of such a proviso in a decree dealing with a trade-mark license. The only basis for including such a proviso would be that activity in this regard under the license was unlawful and that, as a penalty for engaging in unlawful conduct, the licensor would be obligated to make information theretofore unlawfully given exclusively to the licensee available to third parties.

The supplying of such know-how and information, not only is not improper, but indeed is necessary (in order to make the licensee's product comparable in quality to the licensor's), if the licensor is to retain ownership in the trade-mark. In *Morse-Starrett Products Company vs. Steccone*, 86 F. Supp. 796 (D. C. N. D. Cal. S. D., 1949), the court considered this question, and stated (p. 805):

> "If the owner of a trademark wants to license the use thereof to another and still retain as his own the enjoyment of the rights stemming therefrom, he must do so in such a way that he maintains sufficient control over the nature and quality of the finished product, over the activities of the licensee, as will enable the licensor to sustain his original position of guarantor

to the public that the goods now bearing the trademark are of the same nature and quality as were the goods bearing the trademark before the licensing, or, that the mark now has the same meaning as far as the public is concerned as it did before the licensing.

"No such control was ever exercised or attempted to be exercised by defendant."

In *E. I. Du Pont de Nemours Co. v. Celanese Corporation*, 167 Fed. (2d) 484 (Ct. Cust. Pat. App., 1948), the court held similarly.

If, as provided in subparagraph 8, the penalty for so doing is the further requirement that such information must be made available to third parties the making of controlled trade-mark licenses will stop immediately. No licensor would be willing to supply data and information to his licensee so that the latter's product will equal the quality of the licensor's product with the knowledge that he must put every third party competitor on the same basis..

This provision of the judgment, therefore, effectively confiscates American Timken's trademark rights, by preventing licensing thereof, whether exclusive or not, just as it confiscates patent rights and know-how, contrary to the decisions of this Court in *Hartford-Empire Company v. United States*, 323 U. S. 386, and *United States v. National Lead Co.*, 332 U. S. 319, *supra*.

5. The Provisions of the Final Judgment which Require American Timken to Divest Itself of All Stockholdings and Financial Interests in British Timken and French Timken, and Enjoin It from Acquiring Any Further Interest and Participation in Their Affairs, Are Erroneous.

In Section VIII of its final judgment (R. 1179),[55] the district court ordered American Timken to divest itself of its interests in British Timken and French Timken, and enjoined it from further acquisition thereof. It is the contention of American Timken that, even if it had violated Sections 1 and 3 of the Sherman Act by the acts and agreements alleged in the amended complaint in this case (R. 13-25), and under the findings of the district court, this severe remedy is not justified in this case.

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[55] "A. Within two years from the date of this judgment, defendant shall divest itself of all stock holdings and other financial interests, direct or indirect, in British Timken and French Timken. Within one year from the date of this judgment, defendant shall present to the Court for its approval a plan for such divestiture.

"B. Defendant is hereby enjoined and restrained, from the date of this judgment, from:

"1. Acquiring, directly or indirectly, any ownership interest in (by purchase or acquisition of assets or securities, or through the exercise of any option, or otherwise), or any control over, British Timken or French Timken, or any subsidiary, successor or assign thereof;

"2. Exercising any influence or control over the production, sales or other business policies of British Timken or French Timken, or any subsidiary, successor, assign, agent, sales representative, or distributor thereof;

"3. Causing, authorizing or knowingly permitting any officer, director, or employee of defendant or its subsidiaries to serve as an officer, director, or employee of British Timken or French Timken or of any subsidiary, successor, assign, agent, sales representative, or distributor thereof."

Principles Governing Divestiture.

In all of the earlier cases, in which a divestiture type of remedy was adopted,[56] there was either a combination of companies by *stock ownership which was itself held to be in violation of the Act, either* because of acquisition of a former competing company, or by the formation of a holding company (the well-known business "trust" of the early 1900's), or, in some cases, also the purchase of assets of competitors which had been forced out of business. Since the acquisition and ownership of the stock of competing companies was the essence of the violation of the Act in these cases, it is apparent that only by requiring the stock to be divested could the violation be ended. Moreover, in all of the cases the violation found was not merely a restraint of trade contrary to Section 1 of the Act, but involved an attempt to monopolize or a monopolization of some area of commerce falling under Section 2.

In the case at bar, the amended complaint did not charge that any combination between American Timken, British Timken and French Timken, constituted a monopoly or an attempt to monopolize; and the district court made no such finding, or any finding on which such a conclusion could be based. Also, as we shall see the district court did not regard American Timken's ownership of the British and French Timken stock as itself illegal.

The divestiture remedy has been given extensive consideration, in some of the more recent cases decided by this Court which have clarified the principles governing the granting of this form of relief.

Of these, the first is *United States vs. Crescent Amusement Company*, 323 U. S. 173 (1944), in which this Court recognized three types of circumstances which warranted

[56] For a review of these cases, see Hale, "*Trust Dissolution: Atomizing Business Units of Monopolistic Size*," 40 *Columbia Law Review* 615 (1940).

a decree of divestiture: (1) "where the creation of the combination is itself the violation"; (2) where the acquisition of the interests to be divested was "part of the fruits of the conspiracy"; and (3) where "common control was one of the instruments * * * in making the conspiracy effective."

In *Hartford-Empire Company vs. United States,* 323 U. S. 386 (1945), this Court laid down the following general principles with regard to relief in equity suits by the United States under the Sherman Act (pp. 409, 410):

> "The applicable principles are not doubtful. The Sherman Act provides criminal penalties for its violation, and authorizes the recovery of a penal sum in addition to damages in a civil suit by one injured by violation. It also authorizes an injunction to prevent continuing violations by those acting contrary to its proscriptions. The present suit is in the last named category *and we may not impose penalties in the guise of preventing future violations.* This is not to say that a decree need deal only with the exact type of acts found to have been committed or that the court should not, in framing its decree, resolve all doubts in favor of the Government, or may not prohibit acts which in another setting would be unobjectionable. But, even so, the court may not create, as to the defendants, new duties, prescription of which is the function of Congress, or place the defendants, for the future, 'in a different class than other people,' as the Government has suggested. The decree must not be 'so vague as to put the whole conduct of the defendants' business at the peril of a summons for contempt'; or cause the defendants hereafter not 'to be under the protection of the law of the land.' "

The third significant recent decision is *United States vs. Aluminum Company of America,* 148 F. 2d 416 (1945), *supra,* in which the Second Circuit Court of Appeals, sitting in lieu of this Court, refused to direct a dissolution of the Aluminum company, saying (p. 446):

"*Dissolution is not a penalty but a remedy;* if the industry will not need it for its protection, it will be a disservice to break up an aggregation which has for so long demonstrated its efficiency."

The next case was *United States vs. National Lead Company,* 332 U. S. 319 (1947), in which divestiture questions were two-fold: (1) the request of the Government that National Lead and du Pont each be required to divest themselves of two of their principal titanium pigment plants; and (2) the provision in the decree requiring National Lead and Titan, Inc., to divest themselves of stock and other interests in certain foreign corporations, *or in the alternative to purchase the entire stock and other financial interests in those companies.* This Court refused to require divestiture of the producing plant, saying (pp. 351, 352):

"We believe there is neither precedent nor good reason for such a requirement. The violation of the Sherman Act is found in these cases in the patent pooling and in the related agreements restraining interstate and foreign commerce. *There is neither allegation in the complaint nor finding of fact by the District Court that the physical properties of either National Lead or du Pont have been acquired or used in a manner violative of the Sherman Act, except as such acquisition or use may have been incidental or related to the agreements above mentioned.* The cancellation of such agreements and the injunction against the performance of them by the appellant companies eliminate them.

* * * * *

"*There is no finding of fact, and apparently no evidence, showing that the respective principal titanium plants of National Lead or du Pont were acquired in violation of law, that they ever were separately owned or operated,* or that they are adapted to such operation."

This Court affirmed, without much discussion, the provisions for divestiture of the interests in foreign companies,

quoting from the District Court's opinion as follows (p. 363):

> "In other words, the stock acquisitions were *part and parcel of the territorial allocation agreements,* and probably were *a necessary element* in the establishment of the territorial arrangement."

Two more decisions affecting the motion picture industry cast further light on the proper use of the divestiture remedy. *Schine Chain Theatres, Inc. vs. United States,* 334 U. S. 110 (1948), was much like *United States v. Crescent Amusement Co.,* 323 U. S. 173, *supra,* involving the use of the monopolistic buying power of a theater chain to destroy competition. The dissolution plan adopted by the District Court in the *Schine* case, rather than realigning the corporate organization of the chain, required Schine to sell certain theaters in towns where it operated more than one theater. This Court set aside the divestiture provisions of the decree, remanding the case for further findings with respect thereto, and established certain guides for their formulation (334 U. S. 110, pp. 128-130). Here, again, as in the *Crescent Amusement Co.* case, the justifications for divestiture were divided into three classes: (1) that the combination "is itself the violation"; (2) that the defendants are being denied the "benefits of their conspiracy"; and (3) that it breaks up the "monopoly power which violates the Act."

Finally, in *United States vs. Paramount Pictures, Inc.,* 334 U. S. 131 (1948), once again, we find the justification for divestiture expressed along three different lines: (1) acquisitions which were the "fruits" of monopolistic practices or restraints of trade; (2) acquisitions which though lawfully acquired, have been "utilized as part of the conspiracy"; and (3) acquisitions which "would afford opportunity to perpetuate the effects of the restraints of trade." The court in this case also made the following significant statement (p. 153):

"If in such cases the acquisition was not improperly used in furtherance of the conspiracy, its retention by defendants would be justified absent a finding that no monopoly resulted. And in those instances permission might be given the defendants to acquire the interests of the independents on a showing by them and a finding by the court that neither monopoly nor unreasonable restraint of trade in the exhibition of films would result."

This review of the important decisions relating to dissolution and divestiture fails to reveal any principles which support the provisions of Section VIII of the final judgment herein, as applied to the violations of Section 1 of the Act charged in the amended complaint (R. 13-25), and found by the district court. Nowhere in the memorandum herein (R. 958-1018), does the district court explain the reason for ordering divestiture in this case.

Divestiture to break up monopoly power not applicable. We have already noted that monopolization, or attempt to monopolize, the anti-friction bearing industry in any area whatever is not charged in this case. The district court did make certain statements as to the percentages of tapered roller bearings and of anti-friction bearings which were produced by American Timken, British Timken and French Timken in their respective countries (R. 960-961) and declared that this "spells out the dominant position" of these companies "both in the tapered and anti-friction bearing industry" (Mem. par. 15, R. 961). Except for some other general comments in paragraphs 35 and 36 of its memorandum (R. 965-966), the district court made no further findings with respect to American Timken's position in the industry, or regarding its competitors. Clearly, then, divestiture cannot be supported by anything in the record in this case on the "monopoly power" theory of the *Schine Chain Theatres* case, 334 U. S. 110.

Divestiture to remove "fruits" of wrongdoing not applicable. The second theory advanced to support divesti-

ture is that of depriving the party of the "fruits" of his violation. This concept requires that the interests to be divested were acquired as the direct consequence or "fruit" of the illegal practices found to have occurred. Thus, in the *Crescent Amusement* case, 323 U. S. 173, the defendants had coerced their competitors to sell out to them. The same appeared in the *Schine Chain* case, 334 U. S. 110. It was in that case, indeed, that this Court spoke of divestiture as being analogous to the equitable remedy of restitution, since it "merely deprives a defendant of the gains from his wrongful conduct." In the case at bar, there was no finding that American Timken's interests in British Timken and French Timken resulted from any such unlawful acts. Rather, the district court minimized the significance of its ownership of interests in these companies, and placed major stress throughout on the theory of restraints imposed by *agreement* and acts as between *independent* corporations. Thus, in paragraph 153 of its memorandum (R. 1003-1004), the district court declared:

> "The only substantial change in the relationship of the parties resulting from the Dewar-defendant contract was that defendant acquired a stock ownership in British Timken and French Timken."

While we do not concur in the intimation that this "change in the relationship" was of no legal significance, yet there is no suggestion here or elsewhere in the memorandum that the acquisition in itself was unlawful, or that it was the *consequence* of any prior unlawful acts, in the sense connoted by the expression "fruits of the conspiracy." In fact, such a finding would have been beyond the issues in the case, because the acquisitions occurred prior to the combination alleged to have commenced in 1928.

Divestiture to prevent unlawful use of stock not applicable. The third theory supporting the divestiture remedy is that the interests, even though lawfully acquired, are being used in aid of the conspiracy. There is no sug-

gestion in the district court's memorandum that this was done by American Timken with its interests in British Timken and French Timken. It is true that the final judgment enjoins defendant from:

> "Exercising any influence or control over the production, sales or other business policies of British Timken or French Timken. * * *"

but, as stated above, the district court treated the three companies as completely separate corporate units, and stated in its memorandum (R. 1004):

> "Both British Timken and French Timken were managed and operated by Dewar. Except for such powers possessed by virtue of its stock ownership and the contracts, defendant *had no control* over the business conduct of either. * * *
>
> "British Timken and French Timken retained their corporate independence and jealously guarded their interests in dealings with defendant."

Again, while we believe that the district court erred in its interpretation of the facts in this case with respect to the "independence" of British Timken and French Timken, nevertheless, the above statements are wholly inconsistent with any theory that American Timken utilized its interests in those companies in the furtherance of a conspiracy, especially of a conspiracy *with them.*

Divestiture to break up combination not applicable. Another situation which we find in the cases discussed above to support a divestiture decree, is that in which the combination is itself the violation. Applied to this case, this would mean that the *acquisition* of the stock of British Timken by American Timken and its *participation* with Dewar in the *establishment* of French Timken, *were themselves unlawful,* quite apart from any agreements relating thereto, for as we have seen above the district court did not regard the acquisition of the stock as an essential part of the transactions between the companies, but treated it

as merely incidental. For the reasons given and the excerpts from its memorandum previously quoted, it is clear that the district court did not consider whether or not the stock acquisitions in themselves, were in violation of the Act.

The divestiture question under this theory is essentially the converse of the questions involved in the corporate integration cases, of which some of the important earlier examples are *Standard Oil Company vs. United States*, 221 U. S. 1 (1911); *United States vs. American Tobacco Company*, 221 U. S. 106 (1911); and *United States vs. United States Steel Corporation*, 251 U. S. 417 (1920). The latter case illustrates that in these early cases this Court was concerned with three questions: (1) the size of the unit involved; (2) the methods by which it achieved that size; and (3) the power which it was able to exercise over prices and production. As we have pointed out, the district court made only the briefest reference to the size of American Timken, British Timken and French Timken, and that solely as regards their respective percentages of production in their countries. No attention at all was given to the manner in which the companies grew to that size; and indeed there were no allegations in the amended complaint and no evidence whatsoever that any such improper practices were followed as were condemned in the *Standard Oil* and *American Tobacco* cases. Finally, there were no findings with respect to power which the three Timken companies exercised in regard to production or prices of anti-friction bearings. Even by the tests of the earlier cases, then, the findings of the district court were far from adequate to sustain the divestiture provisions of the decree.

Necessity of determining field of competition and district court's failure to do so. Recent cases in which similar questions have been discussed are *United States vs. Paramount Pictures, Inc.*, 334 U. S. 131 (1948), and most sig-

nificant as to the questions involved in this case, *United States vs. Columbia Steel Company,* 334 U. S. 495 (1948).

In *United States v. Columbia Steel Company,* 334 U. S. 495, the ultimate issue was whether it was a violation of the Sherman Act for United States Steel Corporation or its subsidiary, Columbia Steel Company, to acquire the assets of Consolidated Steel Corporation, said to be "the largest independent steel fabricator on the West Coast" (p. 498). This Court first proceeded to an extensive examination of statistics as to the production and sale of rolled steel and other steel products, throughout the United States and in an eleven-state area which was Consolidated's principal market, accepting (p. 520), for the purpose of decision, the Government's contention that:

> "* * * this area is the one to be considered in measuring the effect on competition of the withdrawal of Consolidated as a market for other rolled steel producers and of the bringing together under common control of Consolidated and the fabricating subsidiaries of United States Steel."

It further laid down the tests of legality of a vertical or horizontal expansion by the acquisition of existing facilities as follows (pp. 527, 528):

> "It is first necessary to delimit the market in which the concerns compete and then determine the extent to which the concerns are in competition in that market. If such acquisition results in or is aimed at unreasonable restraint, then the purchase is forbidden by the Sherman Act. In determining what constitutes unreasonable restraint, we do not think the dollar volume is in itself of compelling significance; we look rather to the percentage of business controlled, the strength of the remaining competition, whether the action springs from business requirements or purpose to monopolize, the probable development of the industry, consumer demands, and other characteristics of the market. We do not undertake to prescribe any set of percentage figures by which to measure the unreason-

ableness of a corporation's enlargement of its activities by the purchase of the assets of a competitor. The relative effect of percentage command of a market varies with the setting in which that factor is placed."

In contrast, in the case at bar, although there was extensive evidence as to the field in which defendant's tapered roller bearings were competing—namely, with all other types of anti-friction bearings and with friction bearings, the district court made no precise findings as to the scope of competition, or with respect to the percentage which the Timken companies controlled, in the industry, and even stated (Mem. par. 35, R. 966):

"It is of no moment what the precise figures were."

Nor was there any exploration of the extent to which the Timken companies had been able to control prices within the anti-friction bearing industry; and the evidence and findings regarding alleged illegal practices (other than the agreements with British and French Timken) were confined to a few instances of cooperation between the three companies to meet competition of their international competitors, especially SKF, and of participation by British Timken and French Timken in agreements in England and France which allocated customers and fixed quotas. There was no evidence that these practices resulted in the destruction of competitors, as was true of the unlawful practices found in all the earlier cases which we have discussed.

Indeed, the district court avoided making any findings of this nature, because it persistently clung to the theory that the three Timken companies were independent entities, actual or potential competitors, who had entered into contracts and conspiracies to restrain trade. Thus, it stated (Mem. par. 144, R. 1002):

"Defendant did not acquire British and French Timken."

and (Mem. par. 160, R. 1005):

"It simply acquired substantial interests in a dominant manufacturer of bearings in England, participated in the formation of and invested on the stock of a potential competitor in France."

It is quite apparent that the district court gave no consideration to the legality or illegality of these acquisitions, as such. Yet obviously, findings on this score are essential, to determine the correctness of the divestiture provisions of the judgment.

It is clear from the foregoing cases that the district court failed to give due consideration to the propriety of the divestiture provisions in the judgment in the light of established precedents and doctrines. Certainly, that court has never fully explained the basis upon which divestiture was ordered.

Ineffectiveness of Divestiture to Create Competition—the Invalid Basis Suggested by Appellee.

The main argument stressed by the appellee in demanding this relief was that, in view of the long-continued relationship between American Timken, British Timken and French Timken, the ownership of stock in those companies would serve as an inducement for it not to compete with them, even after the termination of contractual obligations. However, we have been cited to no authorities which show that the removal of one inducement not to compete is a sufficient basis for ordering divestiture of valuable business interests.

We begin in this case with the understanding that the judgment is not essentially penal or punitive in its object, but that its purpose is the effective enforcement of the Sherman Act, the prevention of future violations, and, to the extent indicated by the cases which we have discussed, the undoing of past violations. *Hartford-Empire Company vs. United States*, 323 U. S. 386; *United States vs. National Lead Company*, 332 U. S. 319. We have already

seen that the divestiture of the British Timken and French Timken stock cannot be sustained on the theory that the *acquisition* of the stock was illegal. Any justification for divestiture in this case, therefore, must be found in the preventive effect of such a judgment.

The evidence is so abundant that it has never been practical, and is not now, for American Timken to attempt to export its bearings into foreign markets, and, as this Court is well enough aware, the international economic situation is presently so disrupted, that there is no reasonable probability whatever that, even without its financial interests in British and French Timken, American Timken could with any success market its products in the areas which were allocated to them because of the competitive advantages which they had there. On the contrary, the opposite would be true. The only effect of divesting American Timken of these interests, therefore, would be to deprive it of holdings in foreign companies which, by its investment of capital and through its invaluable assistance in production and sales methods, have grown, in one instance, from a relatively small and ineffective bearing manufacturer, and in the other from scratch, to substantial factors in the industrial make-up of their respective nations.

It is very doubtful whether it would be possible for American Timken to acquire or construct new facilities in those countries.[57] Yet, the undisputed evidence in the case is that this is the only manner in which it is feasible for a manufacturer of bearings to sell in those countries on any

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[57] See, e.g., the testimony of DeKraft, that at the present time it is necessary for a foreign manufacturer to obtain a governmental permit to start a new manufacturing plant in England (R. 818) and, for that purpose, to show the necessity for producing something in England which is not produced there (R. 819), and that in all probability the Board of Trade would not allow the establishment of such a manufacturing company to compete with established business there (R. 826).

substantial scale. Therefore, the divestiture of American Timken's interests in British and French Timken will not tend to create competition between them. For any such purpose, it is utterly futile.

Furthermore, it is well-known that one of the basic policies of the United States, under the popular name of "Point Four," is the encouragement of private investment by American sources in foreign enterprises. The judgment in the case at bar, which the same Government seeks to sustain, works directly contrary to that policy—the *present investment* of an American company is to be withdrawn, to be replaced by we know not what, under circumstances which will *discourage* not only it, but others in similar situations, from making like investments. It is true that this Court cannot make the policy or enact the laws, but in exercising its discretion in formulating decrees in anti-trust cases it can certainly consider whether any reasonable purpose will be served by certain provisions of the decree. Moreover, it can and should consider whether the judgment is consistent with the purpose of the very Act under which it purports to be issued.

Probable Prevention of Foreign Trade in "Timken" Trade-Marked Bearings Resulting from Divestiture.

Rather than stimulating competition in foreign trade by American Timken and its American customers, the divestiture provisions, together with other portions of the judgment, will make it virtually impossible for American Timken to compete in the territories now served by British and French Timken.

Section IV of the final judgment declares the 1938 agreement between the three Timken companies to be unlawful, orders it terminated, and enjoins American Timken from further performance or enforcement of any of the provisions:

> "including those involving rights or obligations upon termination, of said agreements * * *" (R. 1174, 1175).

This would obviously apply to the provisions of paragraph 3(B) of the 1938 agreement (Deft's. Exh. 27, R. 1771; offered, R. 291; R. 1775) which requires British Timken and French Timken, upon termination of the agreement, and upon request of American Timken, to eliminate the name "Timken" from their corporate names, to refrain from using it as a trade-mark or trade name, and to assign to the latter any trade-mark or other rights in respect of said name which they control. Thus, if American Timken is also to be divested of its interests in these companies, and prevented from acquiring such interests, it probably will lose all rights to the use of the trade-mark in those countries where it has been registered and/or used by British Timken or French Timken, or depends upon such registrations or user.

American Timken is also enjoined by Section VII, subsection C, of the final judgment from entering into any agreement with British Timken or French Timken, providing for:

> "The transfer of any right or immunity under a trade mark or name, relating to the production of anti-friction bearings * * *,"

upon condition that the parties thereto will, among other things, refrain from the sale of anti-friction bearings in any territory, refrain from competing in any market, or exclude any producer or distributor from any market (R. 1178). Because the use of a trade-mark in any territory by more than one manufacturer, except under strict limitations, will impair the validity of the mark, these provisions will prevent *any* licensing of the trade-mark to American Timken by British Timken and French Timken in the areas where they are freed of obligation to return it to the former.

As a consequence, American Timken will be unable to sell bearings in these territories under the trade-mark or name of "Timken." Theoretically, for sales in these territories, it might adopt a new mark or name, and develop

good will in that mark. Practically, this is an impossibility for American manufacturers of automobiles and other products cannot determine which of them are destined for a specific foreign market and could not, and would not, select specially marked bearings for use in foreign markets for the accommodation of American Timken. We have already seen how important the mark "Timken" has been in enabling British and French Timken to develop tapered roller bearings sales in new areas.

If it is unable to use that mark on its own products to be sold in those areas, American Timken would have little chance of developing any substantial business therein. It would have to set up its manufacturing organization in such a way that bearings to be sold in those areas would be separately produced, so that the mark "Timken" would not appear on them.

In this additional way, then, the divestiture provisions would work directly to the contrary of the avowed purpose of increasing the foreign trade of the United States in anti-friction bearings.

Hardship and Loss to American Timken from Divestiture.

Another factor which may well be considered, at least in connection with the other reasons given above, is that, while serving no remedial purpose under the Sherman Act, the divestiture provisions of the judgment will result in a serious loss to American Timken. While this Court has said that divestiture of the benefits of a violation or the undoing of the unlawful project cannot be avoided on the plea of hardship or inconvenience, yet it has also stated on several occasions that the decree should "work out a compliance with the law without unnecessary injury to private property." *United States vs. American Tobacco Company,* 221 U. S. 106, 188; that "* * * one of the fundamental purposes of the statutes is to protect, not to destroy, rights of property." *Standard Oil Company vs. United States,* 221 U. S. 1, 77; and that, so far as is consistent with the purpose of the Act, the decree "should conserve the property interests involved." *United States vs. Union Pacific*

Railroad Company, 226 U. S. 470, 477. Thus, in *Hartford-Empire Company vs. United States,* 323 U. S. 386, it was said (p. 414):

> "Since the provisions of paragraphs 21 to 24 inclusive in effect confiscate considerable portions of the appellants' property, we think they go beyond what is required to dissolve the combination and prevent future violations of like character."

At the hearing on the decree in this case, deVegh testified that the sale of British Timken stock could be made to a non-Englishman legally having dollars, but that the market for such transactions is "extremely small," "very irregular" and "not dependable" (R. 1110, 1111). Even so, such a transaction would not take place on the official quoted exchange rates, but on the basis of what is known as the "switch" pound (R. 1111), which at that time was exchanged at the rate of $1.85 or $1.90 to the pound sterling, as compared with the official rate of $2.80 per pound sterling (R. 1111, 1112). Thus, even if such a sale could be made, American Timken would sustain a loss of approximately one-third of its investment, simply on the exchange transaction.

However, deVegh declared that a sale of the magnitude of that involved here—approximately $1,350,000.00 (R. 1093, 1094)—could not be made within any short interval, and that, even over a longer period of time, "it would have a very depressing effect on the switch pound market" (R. 1113). Indeed, because of this, the British government might even refuse to permit the transfer (R. 1113). Presumably, the stock might be sold "to a speculator somewhere" at a dollar a pound (R. 1113). At this rate, American Timken's loss would be almost two-thirds of its present British Timken investment.

If the sale were made to a British resident, he could not possibly have dollars legally available; American Timken would have to accept sterling which it could hold for a maximum of two months before converting it into another

British industrial stock or into British government bonds (R. 1114, 1115). In converting these into dollars, it would have the same problem of depressing the "switch" pound market as in the sale of its stock (R. 1115, 1116).

As to France, the same difficulties exist, although at the time of the hearing deVegh could not say what the "switch" franc rate of exchange was, because there were "practically no transactions in New York" (R. 1116, 1117).

The loss suffered by American Timken, if required to divest itself of its shares of British Timken and French Timken stock, therefore, will be substantial indeed, and without any compensating beneficial effect so far as creating international trade in anti-friction bearings. This factor cannot well be overlooked in determining whether divestiture should be ordered in this case.

We have expressed the belief, in our Statement as to Jurisdiction in this Court that this case presents the fundamental and novel question of whether an American manufacturer may join with a foreign subject to acquire a business in the foreign country, and in connection therewith agree not to compete in a territory allocated to the jointly owned foreign company. There was nothing in the decided cases prior to 1928 to indicate to American Timken that this course of action would put it in violation of the Sherman Act. If there had been, it might well have chosen to adopt Ely's preferred plan, and acquire for itself full ownership of British Timken, and establish German and French Timken alone even though this would have dispensed with the great advantages apparent from the partnership with Dewar. We do not believe that any court would have said that such acquisitions, or any absence of competition between the three companies under those circumstances, was illegal.

If this Court is now to condemn the mode of proceeding which American Timken did follow, for what appear to have been sound business reasons, it is certainly fitting

that it should not penalize American Timken so severely for doing what, in 1927, it had no reason to believe illegal.

In short, we submit that there is no precedent for the divestiture provisions of the judgment; that they are not supported by the findings of the district court; that they will not accomplish any remedial purpose under the Sherman Act, but instead will prevent American Timken from competing in foreign markets; that they will impose hardship upon American Timken without any compensating benefit to anyone; and that they are solely punitive and penal in their effect.

CONCLUSION.

For the reasons hereinbefore set forth, upon the law and the facts, the judgment should be reversed, and final judgment entered for American Timken, or, in any event, the judgment should be modified in the respects indicated.

Respectfully submitted,

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